



SUPREME AUDIT INSTITUTION OF INDIA

लोकहितार्थ सत्यनिष्ठा

Dedicated to Truth in Public Interest

# **Report of the Comptroller and Auditor General of India for the year ended March 2022**

**Union Government  
Department of Revenue (Indirect Taxes-Customs)  
Report No. 11 of 2025  
(Compliance Audit)**

**Report of the  
Comptroller and Auditor General  
of India**

**for the year ended March 2022**

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**Laid on the table of Lok Sabha and Rajya Sabha on .....**



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**PREFACE**

This Report for the year ended March 2022 has been prepared for submission to the President of India under Article 151 of the Constitution of India.

The Report contains significant results of the compliance audit of the Department of Revenue – Customs under the Ministry of Finance, and Director General of Foreign Trade under Ministry of Commerce and Industry.

The Government has made significant investment in Indian Customs EDI System (ICES) with a goal of a comprehensive, paperless, fully automated customs clearance system and availability of transactional information in the form of electronic data. Consequently, Audit attempted to conduct hundred per cent review of data, instead of test check of transactions in a few locations. The availability of complete data would also reduce the requirement of physical visits of Audit to the Customs premises for test check of transactions. However, since the Department did not provide complete data for pan-India transactions, Audit was carried out in the traditional method in 48 out of 70 Customs Commissionerates.

The instances mentioned in this Report are those, which came to notice in the course of test audit for the period 2021-22 as well as those, which came to notice in earlier years, but could not be reported in the previous Audit Reports.

The audit has been conducted in conformity with the Auditing Standards issued by the Comptroller and Auditor General of India.



## EXECUTIVE SUMMARY

Customs duty is levied on import of goods into India and on export of certain goods out of India (Entry 83 of List 1 of the Seventh Schedule of the Constitution). Customs receipts form part of the indirect tax revenue of the Government. Duties of Customs are levied under the Customs Act 1962, and the rates of duties are governed under the Customs Tariff Act and notifications issued from time to time. Department of Revenue (DoR) under Ministry of Finance (MoF) is responsible for administration of Indirect Union Taxes, through the Central Board of Indirect Taxes and Customs (CBIC). The levy and collection of Customs duty and cross-border preventive functions are administered by the CBIC through 70 Customs Commissionerates across the country.

During FY 22, exports worth ₹31.47 lakh crore (2.37 crore transactions) through 406 Customs ports (EDI, Non-EDI, Manual and SEZ ports) and ₹45.72 lakh crore worth of imports (1.93 crore transactions) through 437 Customs ports (EDI, Non-EDI, Manual and SEZ ports) took place. Ratio of Customs receipts to GDP was 0.85 *per cent*, while Customs receipts as percentage of gross tax receipts was 7.37 *per cent*. Customs receipts as a percentage of Indirect taxes was 15.39 *per cent*.

During FY 22, Audit issued 251 inspection reports to the respective Commissionerates/ Regional Licensing Authorities containing 2,065 observations and carrying a total revenue implication of ₹9,824 crore.

This report is divided into five chapters. Chapter I provides a brief description of functions of Department of Revenue and Department of Commerce and an overview of high level statistical information regarding Customs receipts, India's Imports and Exports, performance of Special Economic Zones (SEZs), arrears of Customs receipts and results of the Department's internal audit. Chapters II describes the CAG's audit mandate, scope and results of audit efforts. Chapter III is a Subject specific compliance Audit (SSCA) on topic 'Special Customs procedures for Courier, Baggage and Postal goods including e-commerce goods'. Chapters IV and V contain significant audit findings.

### Chapter I: Overview- Customs Revenue

During FY 22, Customs receipts realised were ₹1,99,728 crore as against ₹1,34,750 crore realised in FY 21. Customs receipts growth rate on Year-on-Year (YoY) basis had increased by 48 per cent during FY 22 and in last five years Customs Receipts increased by 55 per cent. Further, in last five years (FY 18 to FY 22) Customs receipts as percentage of GDP had increased from 0.76 to 0.85



*per cent*. Customs receipts as percentage of GTR (Gross Tax Revenue) had also increased from 6.72 *per cent* (FY 18) to 7.37 *per cent* (FY 22).

***{Paragraphs 1.6.1 and 1.6.2}***

Imports registered a growth of 56.82 *per cent* in FY 22, while Exports also registered rise of 45.76 *per cent* during the same period.

***{Paragraphs 1.7.1 and 1.7.2}***

In addition to earning of foreign exchange and development of infrastructure, SEZs have achieved significant local area impact in terms of direct as well as indirect employment, emergence of new activities, changes in consumption pattern and social life. Exports from SEZ in FY 22 (₹9.91 lakh crore) had overall growth of 71 *per cent* (₹5.81 lakh crore) over exports made in FY 18. The exports growth percentage had increased to 30% *per cent* in FY 22 over FY 21 with exports of ₹9.91 lakh crore.

***{Paragraph 1.9.2}***

A total of ₹6.50 lakh crore had been invested in SEZs during FY 22 which resulted in generation of employment for 26.96 lakh persons. Investment had registered an incremental growth of 32 *per cent* in FY 22 over investment of ₹4.92 lakh crore made in FY 18. During the same period, employment generated had registered growth of 35 *per cent*.

***{Paragraph 1.9.3}***

The total arrear of Customs revenue pending as on March 2022 (₹51,784 crore) had increased by 22 *per cent* in comparison to pendency as on March 2021 (₹42,601 crore). The overall arrears in Customs Duties have grown by 60 *per cent* in FY 22 compared to FY 18. Age analysis of undisputed arrears revealed that out of total ₹9,867 crore, ₹2,200 crore (22.30 *per cent*) were lying unrecovered for more than five years.

***{Paragraphs 1.11.3 and 1.11.8}***

There were 11,322 defaulters in 20 Zones having Customs Duties arrears of ₹5,960, crore as on 31 March 2022. The pendency of arrears and slow recovery may be attributed to vacancies under various categories of post. The Ministry needs to take effective steps for strengthening the Department's recovery mechanism.

***{Paragraph 1.11.9}***

## **Chapter II: CAG's Audit mandate and extent of Audit**

This current report contains 119 audit observations with revenue implication of ₹831 crore noticed during FY 22 have been covered in this report. The remaining cases are being pursued by the respective field formations. The Ministry of Finance and Ministry of Commerce have responded in 80 out of 119 cases issued.

Additionally, in 38 cases, responses were received from the local Customs Commissionerates/Regional Authorities. The Ministries/Departments have accepted 118 paragraphs and taken rectification measures involving money value of ₹76 crore in the form of issue of SCNs, adjudication of SCNs and have reported recovery of ₹69 crore in 83 cases of incorrect assessment of Customs duties.

**{Paragraph 2.6}**

### **Chapter III: Subject Specific Compliance Audit on 'Special Customs procedures for Courier, Baggage and Postal goods including e-commerce goods'**

A Subject specific compliance Audit (SSCA) was conducted to examine the compliance of special Customs procedures for faster clearances made in respect of following subjects:

- International Courier goods
- Baggage including unaccompanied baggage
- Postal goods including e-commerce goods

Audit observed that:

- Equipment required for faster and appropriate assessments e.g. X-ray scanners, carat meters etc. were either existing with limited functionalities or were in numbers not proportionate to the volume of load handled or not put to use. In some cases, this equipment were non-existent.
- The X-ray machines at Mumbai and Ahmedabad were old (2009-2011) and slow in scanning and image movements and were not capable of generating alerts based on specific shapes and nature of images or concealed consignments, apart from leading to shutdowns on heavy usage.
- Carat meters were available only at two units (Ahmedabad and Kolkata Airport). Drug detection kits were available only at three units (Mumbai, Kolkata and Bhubaneshwar). Dog squads were available only at four units (Mumbai, Ahmedabad, Chennai and Kochi). These inadequacies are making Courier terminals vulnerable to trafficking of illegal goods.
- Manpower shortages, space shortages, absence of institutional mechanism for training of screeners make ports vulnerable to illegal traffic and delayed clearances as well.
- The Department was accepting incomplete Baggage Declaration Forms (BDF) at International Airports, wherein mandatory information such as country visited, country from where coming, duration of stay abroad, number of baggage were neither mentioned in the BDF attached with the baggage receipt nor the types of goods were recorded.

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- The usage of the digital Application “ATITHI @Indian Customs” was low because of its limitation of not having the electronic duty payment option.
- In cases of postal exports, absence of commercial export reporting mechanism to RBI led to foreign exchange realisation being kept outside the purview of RBI monitoring for realization of export proceeds and subsequent action for recoveries thereby affecting the management of foreign currency and outgo of export benefits (Drawbacks etc).
- Instances of unreasonable delays such as non-preparation of inventory and delay in depositing of seized goods in warehouses during 2019 to 22 in CCSIA- Lucknow, SGRDJIA, Amritsar. The delays ranges from 5 to 528 days. The goods seized-inter-alia included gold and items thereof- 110.85 Kg and iPhones, Arms ammunition, laptops and other items. There was lack of co-ordination between agencies and the monitoring was inadequate for appropriate management of Un-cleared/ Unclaimed/ seized/ baggage goods.
- In the absence of EDI module and standardization of Customs procedures towards data maintenance of all dutiable and non-dutiable goods at FPOs, trail of assessments made, Audit was restrained to draw an assurance about FPOs being compliant with Customs procedures.

### **Audit recommended that:**

- (i) Ministry may review the requirements and maintenance of existing X-Ray machines/ scanners and install technologically advanced machines for effective, speedy and precise assessments envisaged while creating these infrastructures at all the Courier Terminals/Airports/UB terminals/Foreign Postal offices.
- (ii) There was a need for standardizing the requirements of equipment, space norms, manpower, training norms at the policy level to be followed uniformly across all Courier Terminals/Airports/UB terminals/Foreign Postal offices for effective Customs services/ assessments and facilitation to the trade and the passengers. Monitoring of pending clearances need to be strengthened for availability of additional space towards faster assessments.
- (iii) Validation controls and dwell time needs to be reviewed thereby ensuring faster Courier goods clearances. Internal control measures also need strengthening by introduction of Audit and monitoring modules with proper roles for generating reports at user level.
- (iv) Mandatory use of eBR module and mandatory uploading of all manual BRs in the module for data accuracy and correct reporting to higher management. The functionalities of digital App “ATITHI @Indian Customs” need to be reviewed to make it user-friendly and suitable for widespread

use. The Customs clearances module be integrated with digital App “ATITHI @Indian Customs” for advance declarations and with banking system for digital payment functionality.

- (v) Documents related to the assessment of baggage as regards value of goods, copy of passport to claim duty benefits based on duration of stay abroad, should be mandatorily uploaded in the eBR module for monitoring and audit trails in assessment of baggage goods.
- (vi) Ministry may consider formulating Postal Import Regulations to address deficiencies in Customs procedures for postal imports along with extension of Customs EDI System for processing of Customs business at FPOs. Export by Post Regulations, 2018 may be extended to cover the procedures for the export of personal goods. Streamlining of SOPs for imports and exports and making ICAN-Lite template functional for benefit of all stakeholders.
- (vii) Ministry may address the issue of short/non levy of Customs duties by strengthening the monitoring mechanism through their IT platforms for plugging weaknesses in implementation of the prescribed Customs Rules and notification procedures.
- (viii) A separate digital module covering entire gamut of accounting, monitoring of unclaimed/uncleared/seized/confiscated goods integrating with the Customs EDI system is required as a single source for effective monitoring and resolving this perennial problem.
- (ix) Specific timelines are required for faster actions on unclaimed/uncleared goods where department itself is the Custodian. Increase in pendency of personal gifts at FPOs and ICTs (possibly due to increase in import duties) needs to be reviewed to ease the stagnations.
- (x) Review the extant co-ordination mechanism among the user departments and put in place a robust interactive mechanism monitored by the Senior Management for astute decisions.
- (xi) There is a need for an IT based System to strengthen monitoring mechanism in International Courier Terminals (ICTs), International Airport (IA) Terminals and Foreign Post offices (FPOs) for detecting discrepancies in Assessments and Reports.

Additionally, Internal Audits of these units be mandated at regular intervals and inter-departmental coordination be streamlined to tackle pendency of un-cleared goods.

***{Paragraphs 3.1 to 3.12.8}***

#### Chapter IV: Non-compliance to provisions of various Export Promotion Schemes of Foreign Trade Policy

- Test audit of 20 Regional Authorities and eight Development Commissioners revealed instances of violations of prescribed rules, procedures framed to give effect to the provisions of the Foreign Trade Policy and procedures regarding fulfilment of export obligations and awarding export incentives. Of the total revenue of ₹773 crore due from exporters/importers, in one case, lack of proper validation controls in ICES 1.5 resulted in irregular IGST refund to non-entitled Export-Oriented Units (EOUs) and Advance Authorization (AA) Holders involving revenue of ₹736 crore.

***{Paragraphs 4.3 to 4.3.10}***

#### Chapter V: Non-compliance to provisions of Customs Act, Customs Tariff Act and Tariff notifications

The cases of non-compliance noticed during audit could be broadly categorized as follows:

- Misclassification of imports (***Paragraphs 5.6.1 to 5.6.5***)
- Incorrect application of notifications (***Paragraphs 5.7.1 to 5.7.7***)
- Other irregularities (***Paragraphs 5.8 to 5.8.1***)

Audit noticed 88 cases of under assessments of applicable Customs duties due to misclassification of imported goods, incorrect application of notifications and incorrect levy of applicable levies and other charges, as result of which revenue of ₹46 crore was at risk.

***{Paragraphs 5.6 to 5.8}***

## Glossary of terms and abbreviations

Abbreviation	Expanded form
AA	Advance Authorization
ACC	Air Cargo Complex
ADD	Anti-Dumping Duty
ADGFT	Additional Director General of Foreign Trade
AO	Assessing Officer
BCD	Basic Customs Duty
BE	Bill of Entry
BE	Budget Estimates
BRC	Bank Realization Certificate
CBDT	Central Board of Direct Taxes
CBIC	Central Board of Indirect Taxes and Customs
Commissionerate	Commissionerate of Customs
CRA	Customs Receipt Audit
CRC	Cost Recovery Charges
CSEZ	Cochin Special Economic Zone
CTH	Customs Tariff Heading
CVD	Countervailing Duty
DC	Development Commissioner
DC	Deputy Commissioner of Customs
DGFT	Directorate General of Foreign Trade
DGOV	Directorate General of Valuation
DoC	Department of Commerce
DoR	Department of Revenue
DRI	Directorate of Revenue Intelligence
DTA	Domestic Tariff Area
eBR	Electronic Baggage Receipt
e-BRC	Electronic Bank Realisation Certificate
ECCS	Express Cargo Clearance System
EDI	Electronic Data Interchange
EO	Export Obligation
EODC	Export Obligation Discharge Certificate
EOU	Export Oriented Unit
EPCG	Export Promotion Capital Goods
EXIM	Export and Import
FEMA	Foreign Exchange Management Act
FOB	Free on Board
FPO	Foreign Post Office
FTP	Foreign Trade Policy
FTDR Act	Foreign Trade (Development and Regulation) Act
FY	Financial Year
GDP	Gross Domestic Product
GST	Goods and Services Tax
GTR	Gross Tax Revenue

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<b>Abbreviation</b>	<b>Expanded form</b>
HBP	Hand Book of Procedures
ICD	Inland Container Depot
ICEGATE	Indian Customs Electronic Gateway
ICES	Indian Customs Electronic Data Interchange System
ICT	International Courier Terminal
IEC	Importer Exporter Code
IGST	Integrated Goods and Service Tax
JDGFT	Joint Director General of Foreign Trade
KASEZ	Kandla Special Economic Zone
LEO	Let Export Order
LOP	Letter of Permission
MEIS	Merchandise Exports from India Scheme
MoCI	Ministry of Commerce and Industry
MoF	Ministry of Finance
MOU	Memorandum of Understanding
MPR	Monthly Performance Report
MTR	Monthly Technical Report
NFE	Net Foreign Exchange
NIC	National Informatics Centre
NSEZ	Noida Special Economic Zone
OIO	Order in Original
OM	Office Memorandum
PH	Personal Hearing
PNC	Pre Notice Consultation
Pr.CCA	Principal Chief Controller of Accounts
₹	Rupee
RA	Regional Authority
RC	Recovery Cell
RE	Revised Estimates
RMS	Risk Management System
SAD	Special Additional Duty of Customs
SB	Shipping Bill
SEEPZ	Santacruz Electronic Export Processing Zone
SEIS	Service Exports from India Scheme
SEZ	Special Economic Zone
UB	Un-Accompanied Baggage
VSEZ	Visakhapatnam Special Economic Zone
YoY	Year on Year

## CHAPTER I

### Customs Revenue

#### 1.1 Nature of Customs Duties

**1.1.1** Customs Duty is levied on import of goods into India and on export of certain goods out of India (Entry 83 of List 1 of the Seventh Schedule of the Constitution). Customs Receipts form part of the indirect tax revenue of the Government.

**1.1.2** Duties of Customs are levied under the Customs Act, 1962, and the rates of duties are governed under the Customs Tariff Act, 1975 and notifications issued from time to time.

#### 1.2 Customs Revenue Base

**1.2.1** The Customs revenue base comprises of the Importers and Exporters issued with Importer Exporter Code (IEC) by the Directorate General of Foreign Trade (DGFT). As on March 2022, there were 17,19,029 active IECs issued by DGFT, Delhi to every Importer. During FY 22, exports worth ₹31.47 lakh crore (2.37 crore transactions) through 406 Customs ports (EDI, Non-EDI, Manual and SEZ ports) and imports worth ₹45.72 lakh crore worth of imports (1.93 crore transactions) through 437 Customs ports (EDI, Non-EDI, Manual and SEZ ports) took place.

#### 1.3 Organisation and Functions of Administrative Departments

**1.3.1** The Department of Revenue (DoR) under Ministry of Finance (MoF) is the apex Department of Government of India responsible for administration of the Direct and Indirect Union Taxes, through two statutory Boards namely, the Central Board of Indirect Taxes and Customs (CBIC) and the Central Board of Direct Taxes (CBDT) constituted under the Central Board of Revenue Act, 1963.

**1.3.2** The levy and collection of Customs Duty, IGST on imports and cross-border preventive functions are administered by the CBIC through 11 Zones headed by Chief Commissioners across the country.

There are 11 Zones of Customs and Customs (Preventive) and nine combined Goods and Services Tax (GST) Zones, with Customs Commissionerates spread across the country. These Zones are headed by the Principal Chief Commissioners/Chief Commissioners. There are 70 Commissionerates exclusively of Customs, Customs (Preventive), Customs (Appeals) and Customs (Audit).

**1.3.3** The Department of Commerce (DoC) under Ministry of Commerce and Industry (MoCI), through DGFT formulates, implements and monitors the Foreign Trade Policy (FTP), which provides the basic framework of policy and strategy to be followed for promoting exports and trade. Besides, the DoC is also entrusted with responsibilities relating to multilateral and bilateral commercial relations, Special



Economic Zones (SEZs), State trading, export promotion and trade facilitation, and development and regulation of certain export oriented Industries and commodities.

**1.3.4** The FTP is implemented through the Regional Authorities (RAs) who are responsible for providing IECs and granting licenses under various schemes of export promotion. During FY 22, there were 25 RAs across India. However, the execution/implementation of such licences is done through the Customs Commissionerates.

#### **1.4 Customs Receipts**

**1.4.1** Customs receipts, before the introduction of Goods and Service Tax (GST), comprised Basic Customs Duty (BCD), Additional Duty<sup>1</sup> and Special Additional Duty (SAD). All imports are also subjected to Social Welfare Surcharge (SWS) in place of Education Cess and Secondary and Higher Education Cess w.e.f. February 2018<sup>2</sup>. In addition, Anti-Dumping Duty (ADD) and Safeguard Duty (SD) are leviable wherever applicable.

**1.4.2** After introduction of GST w.e.f. 1 July 2017, the CVD and SAD on import of all commodities, except petroleum products and alcoholic liquor for human consumption, have been subsumed and replaced by Integrated Goods and Service Tax (IGST). Tobacco products are subject to both Central Excise and IGST. The IGST is in addition to the applicable BCD which is levied as per the Customs Tariff Act. In addition, GST compensation cess is also leviable on certain luxury and demerit goods under the GST (Compensation to States) Cess Act, 2017. Levy of education cess as well as ADD and Safeguard Duty remains unchanged.

#### **1.5 Budget Estimates and Actual Receipts**

**1.5.1** The Receipt Budget of the Union Government provides budget estimates of tax and non-tax revenues of the Government. Comparison of budget estimates with actual receipts is an indicator of quality of fiscal management. The actuals may differ from the estimates either due to unexpected events or due to unrealistic assumptions.

**1.5.2** Budget Estimates (BE), Revised Estimates (RE) and actual Customs Receipts during FY 18 to FY 22 are given in **Table 1.1**.

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<sup>1</sup> Additional duty of Customs levied under Section 3(1) of the Customs Tariff Act 1975 equal to excise duty, sales tax, local taxes and other charges, commonly known as Countervailing Duty.

<sup>2</sup> SWS is an additional charge on import of goods being levied under clause 108 of the Finance Bill (Act), 2018.

**Table 1.1: Budget and Revised Estimates, actual receipts**

Year	Budget estimates ₹ in Cr.	Revised estimates ₹ in Cr.	Actual receipts ₹ in Cr.	Difference between Actual and BE ₹ in Cr.	Per cent variation between Actual and BE	Difference between Actual and RE ₹ in Cr.	Per cent variation between Actual and RE
FY 18	2,45,000	1,35,242	1,29,030	(-)1,15,970	(-)47.33	(-)6,212	(-)4.59
FY 19	1,12,500	1,30,038	1,17,813	(+) 5,313	(+)4.72	(-)12,225	(-)9.40
FY 20	1,55,904	1,25,000	1,09,283	(-)46,621	(-)29.90	(-)15,717	(-)12.57
FY 21	1,38,000	1,12,000	1,34,750	(-)3,250	(-)2.36	(+)22,750	(+)20.31
FY 22	1,36,000	1,89,000	1,99,728	(+)63,728	(+)46.86	(+)10,728	(+)5.68

*Source: Union Budget and Finance Accounts for respective years and MoF (CBIC) letter No.307/46/2022-PAC-CUS dated 05.06.2023*

**1.5.3** The variation between RE and actual receipts ranged between (-)12.57 per cent to 20.31 per cent during FY 18 to FY 22. Variation between BE and actuals was in the range of (-)47.33 per cent to 46.86 per cent during the same period.

**1.5.4** Actual Customs receipts during FY 21 were short by (-)2.36 per cent (₹3,250 crore), while during FY 22, they were more than by (+)46.86 per cent (₹63,728 crore) in comparison to their BE. The actual receipts during FY 22 have exceeded the RE because of Economic revival, which picked its normal pace during the second half of FY 22 after Covid pandemic impact and prevailing macro-economic conditions during the first half of FY 22.

DoR, for variation in RE/BE, stated (March 2022), that Customs Duty inter-alia depends on various economic factors such as GDP growth, import volume, rate of exchange of leading international currencies against Indian Rupee (INR), global economic conditions etc. along with tax policy, tax rates and tax base. Customs Duty target for BE 2021-22 was set at the time of presentation of the budget in February 2022 under various assumptions based on the prevailing macro-economic conditions and past revenue trends, estimated tax buoyancy and also considering the effects caused by the pandemic to the growth.

DoR attributed the increase in Customs receipts compared to RE during FY 22 also to the fact that the Department regularly monitors factors affecting the economy and made intervention by way of calibrating Customs duty rate structure as and when required. After presentation of the Budget, changes were made in Customs Duty structure to address inversion in duty structure.

## **1.6 Growth of Customs Receipts**

**1.6.1** Table 1.2 gives the relative growth of Customs receipts with reference to Gross Domestic Product (GDP), Gross Tax Revenue (GTR) receipts and Gross Indirect Tax receipts during FY 18 to FY 22.

**Table 1.2: Growth of Customs Receipts**

Year	Customs Receipts ₹ in Cr.	Year on year growth <i>per cent</i>	GDP ₹ in Cr.	Customs Receipts as % of GDP	Gross Tax Revenue (GTR) ₹ in Cr.	Customs Receipts as % of GTR	Gross Indirect Taxes ₹ in Cr.	Customs Receipts as percentage of Indirect Taxes
<b>FY 18</b>	1,29,030	(-)-43	1,70,90,042	0.76	19,19,183	6.72	9,16,445	14.07
<b>FY 19</b>	1,17,813	(-)-09	1,88,99,668	0.62	19,68,456	5.99	8,43,177	13.97
<b>FY 20</b>	1,09,283	(-)-07	2,01,03,593	0.54	20,10,059	5.44	8,59,122	12.72
<b>FY 21</b>	1,34,750	23	1,98,54,096	0.68	20,27,102	6.65	10,76,891	12.51
<b>FY 22</b>	1,99,728	48	2,35,97,399	0.85	27,09,315	7.37	12,97,797	15.39

*Source: Union Budget & Finance Accounts for respective years, GDP figures from National Statistical Office, MoSPI press note dated 28 February 2025.*

**1.6.2** Customs receipts growth rate on Year-on-Year (YoY) basis had increased by 48 *per cent* during FY 22 and in last five years Customs receipts increased by 55 *per cent*. Further, in last five years (FY 18 to FY 22) Customs receipts as percentage of GDP had increased from 0.76 to 0.85 *per cent*. Customs receipts as percentage of GTR (Gross Tax Revenue) had also increased from 6.72 *per cent* (FY 18) to 7.37 *per cent* (FY 22).

After introduction of GST (July 2017), CVD and SAD on imports, except petroleum products and alcohol, have been subsumed and replaced by IGST. IGST is being collected under a different Accounting Head (Major Head 0008). However, Customs receipts growth rate had doubled during FY 22 (48 *per cent*) in percentage comparison to FY 21 (23 *per cent*). This was mainly because of economic revival, which picked its normal pace after first half of FY 22 from COVID pandemic impact and prevailing macro-economic conditions.

**1.6.3** During FY 22, the percentage of Customs receipts to GDP had increased to 0.85 *per cent* as compared to 0.68 *per cent* in FY 21. Customs receipts as a percentage of GTR had increased to 7.37 *per cent* in FY 22 as compared to 6.65 *per cent* in FY 21. The decrease in percentage of Customs receipts as compared to GDP/GTR during FY 18 to FY 20 was mainly because after introduction of GST, IGST is being collected under a different Accounting Head (Major Head 0008).

**1.6.4** During FY 22, the Customs receipts to GDP ratio was less than one *per cent* (0.85 *per cent*) while Customs receipts as a percentage of GTR were 7.37 *per cent*. Customs receipts as a percentage of Indirect taxes were 15.39 *per cent*.

## **1.7 India's Imports and Exports**

**1.7.1** Table 1.3 depicts trend of growth of India's imports and exports during FY 18 to FY 22.

**Table 1.3: India's Import and Export**

Year	Imports ₹ in Cr.	% growth over previous year	Exports ₹ in Cr.	% growth over previous year	Trade Imbalance ₹ in Cr.
FY 18	30,01,033	16.44	19,56,515	5.62	(-)10,44,518
FY 19	35,94,675	19.78	23,07,726	17.95	(-)12,86,949
FY 20	33,60,954	(-)6.50	22,19,854	(-)3.81	(-)11,41,100
FY 21	29,15,958	(-)13.24	21,59,043	(-)2.74	(-)7,56,915
FY 22	45,72,771	56.82	31,47,021	45.76	(-)14,25,750

Source: EXIM Data, Ministry of Commerce & Industry

**1.7.2** In FY 22, India's overall export in value was ₹31,47,021 crore as compared to ₹21,59,043 crore in FY 21, registering growth of 45.76 *per cent*. In FY 22, India's overall import in value was ₹45,72,771 crore as compared to ₹29,15,958 crore in FY 21, also registering a positive growth of 56.82 *per cent*.

YoY growth rate of imports increased during FY 18 to FY 22 from 16.44 *per cent* to 56.82 *per cent*. The growth rate in exports also increased from 5.62 *per cent* in FY 18 to 45.76 *per cent* in FY 22. Imports increased by 56.82 *per cent* in FY 22 over FY 21, while exports also increased by 45.76 *per cent* during the same period. However, trade balance for overall trade during FY 22 has further worsened as compared to last four years (FY 18 to 21). This was mainly because of economic revival, which picked its normal pace after second wave of COVID pandemic impact and prevailing macro-economic conditions during the first half of FY 22.

### 1.7.3 Trade with top 10 trading partners

During the last five years (FY 18 to FY 22) India's major trading partners were USA, China, UAE, Saudi Arabia, Iraq, Singapore, Hong Kong, Indonesia, Korea, and Australia. Of these, the share of imports in FY 22 as compared to FY 18 from all 10 trading partners have increased.

In terms of YoY growth of FY 22 over FY 21, imports from top of 10 countries, have increased. The commodity groups imported from top 10 countries were Petroleum Crude, Petroleum Products, Gold, Pearls, Precious and Semi-Precious-Stones, Coal Coke and Briquettes, Electronic components, Telecom Instruments, Vegetable Oils, Organic Chemicals and Computer Hardware etc.

Of these, exports in FY 22 as compared to exports in FY 21 to top 10 countries have increased. There was moderate to significant export growth with top 10 partners.

During FY 22 India's trade imbalance with its trading partners was 81 *per cent* {(-) ₹14,25,749 crore} of the total trade imbalance. The details of imports and exports from the top ten trading partners during FY 22 are depicted in **Table 1.4**.

**Table 1.4: India's top 10 trading partners for FY 22**

Rank	Country	Values: ₹ in crore			
		Export	Import	Total Trade	Trade Balance
1	U S A	5,67,961	3,23,033	8,90,994	2,44,928
2	China	1,58,215	7,05,123	8,63,339	-5,46,908
3	UAE	2,09,158	3,34,470	5,43,628	-1,25,312
4	Saudi Arabia	65,310	2,54,678	3,19,988	-1,89,368
5	Iraq	17,970	2,38,418	2,56,388	-2,20,448
6	Singapore	83,013	1,41,574	2,24,587	-58,561
7	Hong Kong	81,835	1,42,401	2,24,235	-60,566
8	Indonesia	63,197	1,32,049	1,95,246	-68,853
9	Korea	60,350	1,30,299	1,90,649	-69,950
10	Australia	61,841	1,25,030	1,86,871	-63,189
<b>Total of Top 10 countries</b>		<b>13,68,849</b>	<b>25,27,074</b>	<b>38,95,924</b>	<b>-11,58,225</b>
<b>India's Total</b>		<b>31,47,021</b>	<b>45,72,771</b>	<b>77,19,655</b>	<b>-14,25,749</b>
<b>% Share of Top 10 countries</b>		<b>43.50</b>	<b>55.26</b>	<b>50.47</b>	<b>81.24</b>

Source: EXIM Data, Ministry of Commerce and Industry

Of the top ten trading partners, India ran a significant trade surplus with the United States (₹2,44,928 crore in FY 22), while it ran trade deficits with all its other major partners with China being the largest {(–)₹5,46,908 crore in FY 22}.

Imports from the top 10 trading partners during FY 21 and 22 accounted for about half of the total imports made during the period (Table 1.5).

**Table 1.5: Imports from top 10 trading partners year on year growth FY 22 over FY 21**

Sl. No.	Name	FY 21	% Share of total imports in FY 21	FY 22	% Share of total imports in FY 22	Growth % FY 22 over FY 21
1	USA	2,13,725	7.33	3,23,033	7.06	51.14
2	China	4,82,496	16.55	7,05,123	15.42	46.14
3	UAE	1,96,351	6.73	3,34,470	7.31	70.34
4	Saudi Arabia	1,19,759	4.11	2,54,678	5.57	112.66
5	Iraq	1,05,655	3.62	2,38,418	5.21	125.66
6	Singapore	98,220	3.37	1,41,574	3.10	44.14
7	Hong Kong	1,12,218	3.85	1,42,400	3.11	26.90
8	Indonesia	92,325	3.17	1,32,049	2.89	43.03
9	Korea	94,476	3.24	1,30,299	2.85	37.92
10	Australia	60,971	2.09	1,25,030	2.73	105.07
	Sub Total	<b>15,76,196</b>		<b>25,27,074</b>		
<b>Percentage</b>			<b>54.05</b>		<b>55.26</b>	<b>60.33</b>
<b>India's Total Imports</b>		<b>29,15,958</b>	<b>100</b>	<b>45,72,771</b>	<b>100</b>	

Source: EXIM Data, Ministry of Commerce and Industry

Imports from ten major trading partners during FY 22 had shown an increasing trend as compared with imports made during FY 21. The major significant increase of 126 per cent was in imports from Iraq during FY 22. There was moderate to significant increase in Imports from other nine major trading partners during the same period.

**1.8 Share of top five Commodity groups in Imports and Exports during FY 22**

**1.8.1** During FY 22, the highest import of ₹14,54,623 crore was recorded for the commodity 'Mineral fuels and products of their Distillation' which constitutes the largest share of 32 *per cent* in India's total import. The top five principal commodities of import during FY 22 along with percentage share are, (i) Mineral fuels and products of their Distillation (Chapter 27 of Customs Tariff)-32 *per cent*, (ii) Natural or Cultured Pearls, Precious or semi-precious stones, Gold and articles thereof (Chapter 71 of Customs Tariff)-13 *per cent*, (iii) Electrical machinery and equipment and parts (Chapter 85 of Customs Tariff)-10 *per cent*, (iv) Machinery and appliances and parts (Chapter 84 of Customs Tariff)- 8 *per cent* and (v) Organic chemicals (Chapter 29 of Customs Tariff)- 5 *per cent*.

These commodity groups accounted for 68 *per cent* share of India's total imports made during FY 22 as depicted in **Table 1.6** below.

**Table 1.6: Share of top five commodity groups in Imports during FY 22**

Sl. No.	Name of the Commodity	Import Value (₹ in crore)	Per Cent to total Import
1	Mineral Fuels, Mineral Oils and Products of their Distillation; Bituminous Substances; Mineral Waxes. (Chapter-27)	14,54,623	32
2	Natural or Cultured Pearls, Precious or Semiprecious Stones, Precious Metals, Clad With Precious Metal and Articles thereof; Imitation Jewellery; Coins. (Chapter-71)	6,08,876	13
3	Electrical Machinery and Equipment and Parts thereof; Sound Recorders and Reproducers, Television Image, Sound Recorders and Reproducers, and Parts. (Chapter-85)	4,66,316	10
4	Machinery and Mechanical Appliances; Parts thereof. (Chapter-84)	3,77,114	8
5	Organic Chemicals (Chapter-29)	2,12,615	5
6	Others (Except Chapter-27, 71, 85, 84, 29)	14,53,227	32
	<b>Total</b>	<b>45,72,771</b>	<b>100</b>

*Source: EXIM Data, Ministry of Commerce & Industry*

**1.8.2** During FY 22, the highest export of ₹ 5,19,517 crore was also recorded in 'Mineral fuels and products of their Distillation' which constitute the largest share of 17 *per cent* in India's total export. The top five principal commodities of export during FY 22 along with percentage share are, (i) Mineral fuels and products of their Distillation (Chapter 27 of Customs Tariff)-17 *per cent*, (ii) Natural or Cultured Pearls, Precious or semi-precious stones, Gold and articles thereof (Chapter 71 of Customs tariff)- 9 *per cent*, (iii) Machinery and appliances and parts thereof (Chapter 84 of Customs Tariff)-6 *per cent*, (iv) Iron and Steel (Chapter-72 of Customs Tariff)- 5 *per cent* and (v) Organic chemicals (Chapter 29 of Customs Tariff)-5 *per cent* in their

respective order. The share of the five major commodity groups in exports during FY 22 was 42 *per cent* of India's total exports as depicted in **Table 1.7** below.

**Table 1.7: Share of top five commodity groups in exports during FY 22**

Sl. No.	Name of The Commodity	Export Value ( ₹In Crore)	Per Cent To Total Export
1	Mineral Fuels, Mineral Oils and Products of their Distillation; Bituminous Substances; Mineral Waxes. (Chapter-27)	5,19,517	17
2	Natural or Cultured Pearls, Precious or Semiprecious Stones, Precious Metals, Clad With Precious Metal and Articles thereof; Imitation Jewellery; Coin. (Chapter-71)	2,92,745	9
3	Machinery and Mechanical Appliances; Parts thereof. (Chapter-84)	1,89,497	6
4	Iron and Steel (Chapter-72)	1,70,591	5
5	Organic Chemicals (Chapter-29)	1,64,348	5
6	Others (Except Chapter-27, 71, 84, 72, 29)	18,10,323	58
	<b>Total</b>	<b>31,47,021</b>	<b>100</b>

*Source: EXIM Data, Ministry of Commerce & Industry*

## 1.9 Performance of Special Economic Zones

**1.9.1** The SEZ Act, 2005, supported by SEZ Rules, came into effect on 10 February, 2006, providing for simplification of procedures and for single window clearance on matters relating to Central as well as State Governments. In terms of the SEZ Act, 2005, an SEZ may be set up either jointly or severally by the Central Government, State Government or any person for manufacture of goods or rendering services or for both or as a Free Trade Warehousing Zone (FTWZ). Such proposals duly recommended by the concerned State Government are considered by the Board of Approval (BoA) for SEZs.

The main objectives of the SEZ Act are:

- generation of additional economic activity
- promotion of exports of goods and services
- promotion of investment from domestic and foreign sources
- creation of employment opportunities
- development of infrastructure facilities

After notification of SEZ Rules in February 2006, as of 1 April 2022, the Department of Commerce had granted 424 formal approvals for setting up SEZs, out of which, 375 had been notified, of which only 268 SEZs were operational (**Annexure 1**) i.e. 63 *per cent* of the total approved SEZs.

**1.9.2** The SEZ scheme has generated tremendous response among the investors, both in India and abroad which is evident from the flow of investment and creation of additional employment in the country. In addition to earning of foreign exchange



and development of infrastructure, SEZs have achieved significant local area impact in terms of direct as well as indirect employment, emergence of new activities, changes in consumption pattern and social life. The three parameters of SEZ performance (i) Export performance, (ii) Investment, and (iii) Employment for the period FY 18 to FY 22 are given in **Table 1.8** below.

**Table 1.8: Performance of SEZs**

	FY 18	FY 19	FY 20	FY 21	FY 22
<b>Export performance</b> ( ₹ in crore )	5,81,033 (11%)*	7,01,179 (21%)*	7,96,669 (14%)	7,59,524 (-4.66%)	9,90,747 (30%)*
<b>Investment</b> ( ₹ in crore )	4,92,312 (14%)	5,07,644 (3%)	5,71,735 (13%)	6,17,499 (8%)	6,49,705 (5%)*
<b>Employment</b> (in person)	19,96,610 (12%)	20,61,055 (3%)	22,38,305 (8%)	23,58,136 (5%)	26,96,180 (14%)*

*Source: Ministry of Commerce & Industry \*Figures in bracket indicate YoY growth*

Exports from SEZ, which stood at ₹9.91 lakh crore in FY 22, had overall growth of 71 *per cent* (₹5.81 lakh crore) over exports made in FY 18. The exports growth percentage had increased to 30% *per cent* in FY 22 over FY 21 with exports of ₹9.91 lakh crore. The YoY growth in exports had increase from 11 *per cent* in FY 18 to 30 *per cent* in FY 22 as compared to previous years (**Table 1.8 and Annexure 1**). The exports growth exhibit an increasing trend in FY 22 after declining effects of Corona pandemic in FY 21.

**1.9.3** A total of ₹6.50 lakh crore had been invested in SEZs during FY 22 which resulted in generation of employment for 26.96 lakh persons. Investment had registered an incremental growth of 32 *per cent* in FY 22 over investment of ₹4.92 lakh crore made in FY 18. During the same period, employment generated had registered growth of 35 *per cent* (**Table 1.8**).

#### **1.10 Cost of Collection of Customs Receipts during FY 21 and FY 22**

**1.10.1** Cost of collection is the cost incurred on collection of Customs Duties and comprises of expenditure on Import/Export Trade control functions, preventive functions, transfers to reserve fund/deposit account and other expenditure.

**1.10.2** The cost of collection of Customs receipts for FY 22 was 3.42 *per cent* of Customs receipts. The cost of collection of Customs receipts for the period from FY 21 to FY 22 is given in **Table 1.9** below

**Table 1.9: Cost of Collection during FY 21 and FY 22**

(₹ in Crore)

Expenditure Heads	FY 21	FY 22
Expenditure on Revenue-cum Import /export and trade control functions	783	833
Expenditure on preventive and other functions	3,809	4,279
Transfer to Reserve, Fund, Deposit A/c and other expenditure	21	19
Remission of Duties and taxes on exported products	Not available*	12,016



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Expenditure Heads	FY 21	FY 22
Rebate on State and Central Taxes and levies	Not available*	9,176
Rebate under MEIS	Not available *	23,051
Rebate under SEIS	Not available *	4,099
Rebate/Incentive under TPS	Not available *	766
Rebate under other Schemes	Not available *	213
Total Expenditure	4,611	54,452
Customs Receipts	1,34,750	1,99,728
Cost of collection as percentage of Customs Receipts	3.42	27.26

*Source: Finance Accounts of the Union Government for respective years*

*\* Expenditure under these heads was not depicted in the Finance Accounts for FY 21*

**1.10.3** Expressed in terms of percentage of Customs receipts, cost of collection was 3.42 *per cent* in FY 21 and 27.26 *per cent* in FY 22. The increase in cost of collection was because of depiction of expenditure under additional expenditure Heads from FY 22. The additional expenditure heads are 'Remission of Duties and taxes on exported products, Rebate on State and Central Taxes and levies, Rebate under MEIS, Rebate under SEIS, Rebate/Incentive under Target Plus Scheme (TPS) and Rebate under other Scheme'.

## **1.11 Arrears of Customs Duties**

**1.11.1** Recovery of arrears of Customs Duties is the overall responsibility of the jurisdictional Commissioners. They are required to review and monitor the functions of recovery cell functioning within the Commissionerates. Every year, recovery targets are fixed for each Commissionerate. Against the recovery target of ₹3,767 crore in FY 22, the Department had recovered ₹1,673 (44 *per cent*), leaving a balance of ₹2,094 crore (56 *per cent*).

Board has issued instructions/Circulars relating to recovery of arrears under Central Excise, Service Tax and Customs from time to time. Considering the changes that have taken place, especially after the introduction of GST in July 2017, it has become imperative to update and revamp the procedure for recovery of arrears of Indirect Taxes and Customs.

**1.11.2** The arrears of Customs Duty are duties raised by the Department but not recovered due to various reasons like pendency of adjudication, disputed claims, and provisional assessments. Total Customs arrears amounted to ₹51,784 crore as on 31 March 2022. The Customs revenue arrears for FY 18 to FY 22 are depicted in the **Table 1.10** below:

**Table 1.10: Arrears of Customs Duties**

Year	Arrear of Customs Duties under dispute (₹ in Cr.)	Arrear of undisputed Customs Duties (₹ in Cr.)	Total Arrears (₹ in Cr.)	Percentage of disputed arrears to total arrears	Percentage of undisputed arrears to total arrears
FY 18	18,836	5,849	24,685	76.31	23.69
FY 19	27,972	7,855	35,827	78.08	21.92

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Year	Arrear of Customs Duties under dispute (₹ in Cr.)	Arrear of undisputed Customs Duties (₹ in Cr.)	Total Arrears (₹ in Cr.)	Percentage of disputed arrears to total arrears	Percentage of undisputed arrears to total arrears
FY 20	36,951	8,101	45,052	82.02	17.98
FY 21	34,215	8,386	42,601	80.32	19.68
FY 22	41,917	9,867	51,784	80.95	19.05

*Source: DG Performance Management (TAR), Customs, Central Excise & Services*

**1.11.3** The arrears of Customs Duties had risen steadily during FY 18 to FY 22. The total arrear of Customs revenue pending as on March 2022 (₹51,784 crore) had increased by 22 *per cent* in comparison to pendency as on March 2021 (₹42,601 crore). The overall arrears in Customs Duties have grown by 60 *per cent* in FY 22 compared to FY 18.

**1.11.4** Amount of arrears under dispute as a proportion to total arrears had increased from 76.31 *per cent* in FY 18 to 80.95 *per cent* in FY 22 and stood at ₹41,917 crore.

**1.11.5** Undisputed arrears (₹9,867 crore) pending as on 31 March 2022 were 19.05 *per cent* of total arrears (₹51,784 crore).

**1.11.6** Out of total 20 Zones {11 Customs Zones and nine combined (Customs and GST Zones)}, 10 Zones accounted for 83.42 *per cent* (₹43,203 crore) of total arrears pending (₹51,784 crore) during FY 22 as shown in **Table 1.11**.

**Table 1.11: Zone wise Arrears of Customs revenue as on 31 March 2022**

Rank	Chief Commissioner Zones	Amount under Dispute (₹ in crore)	Amount Undisputed (₹ in crore)	Amount pending as on 31.03.2022 (₹ in crore)
1	Ahmedabad Customs	8,152	710	8,863
2	Mumbai - II Customs	5,802	562	6,363
3	Bangalore Customs	5,957	387	6,344
4	Delhi Customs	3,159	2,473	5,632
5	Mumbai - III Customs	2,796	385	3,181
6	Mumbai - I Customs	2,467	639	3,106
7	Chennai Customs	2,554	255	2,809
8	Bhopal CE & GST	1,338	1,073	2,411
9	Kolkata Customs	1,824	505	2,329
10	Bhubaneswar CE & GST	1,935	229	2,165
	Sub-total top 10	<b>35,985</b>	<b>7,218</b>	<b>43,203</b>
11	Total of others	5,932	2,649	8,581
	<b>Grand Total</b>	<b>41,917</b>	<b>9,867</b>	<b>51,784</b>

*Source: Ministry of Finance letter no. F.No.307/46/2022-PAC-CUS dated 26.06.2023*

**1.11.7** Chief Commissionerates of Customs, Ahmedabad had the highest quantum of arrears of Customs Duty in FY 22, followed by Mumbai-II, Bengaluru, Delhi, Mumbai-III and Mumbai-I, Chennai and Bhopal Customs Zones in that order.

**1.11.8** Age wise Arrears of Customs revenue for FY 18 to FY 22 are depicted in the **Table 1.12** below.

**Table 1.12: Age wise pendency of Arrears of Customs Revenue for FY 18 to FY 22**

Year	Amount under dispute (₹ in Cr.)				Amount not under dispute (₹ in Cr.)				Grand total (col.5+9)
	Less than 5 years	Five years but < 10 years	More than 10 years	Total (Col.2+3+4)	Less than 5 years	Five years but < 10 years	More than 10 years	Total (Col.6+7+8)	
1	2	3	4	5	6	7	8	9	10
FY 18	15,554	2,279	1,005	18,836	3,931	980	938	5,849	24,685
FY 19	24,670	2,373	929	27,972	5,361	831	1,663	7,855	35,827
FY 20	29,226	6,128	1,597	36,951	6,243	864	994	8,101	45,052
FY 21	25,077	7,599	1,539	34,215	6,285	918	1,183	8,386	42,601
FY 22	31,558	8,436	1,923	41,917	7,667	966	1,234	9,867	51,784

*Source: Ministry of Finance letter no. F.No.307/46/2022-PAC-CUS dated 26.06.2023 for FY 22*

Age analysis of undisputed arrears revealed that out of total ₹9,867 crore, ₹2,200 crore (22.30 per cent) were lying unrecovered for more than five years. An amount of ₹1,234 crore was pending for recovery for more than ten years.

**1.11.9** Further, there were 10,920 defaulters in 20 Zones (as on 1 April 2021) from whom Customs revenue of ₹5,104 crore was due for recovery. There was an addition of 1,987 new defaulters during FY 22 having revenue liability of ₹1,351 crore. After recoveries in few cases there were 11,322 defaulters having arrears of ₹5,960, crore as on 31 March 2022. The pendency of arrears and slow recovery may be attributed to vacancies under various categories of post. The Ministry needs to take effective steps for strengthening the Department's recovery mechanism.

**1.11.10** Recovery of arrears is the overall responsibility of the jurisdictional Commissioners. Every year, recovery targets are fixed for each Commissionerate. Details of target fixed and achievement for Recovery of Customs Duties arrears during FY 18 to FY 22 are depicted in the **Table 1.13**.

**Table 1.13: Recovery Target fixed and achieved during FY 18 to FY 22**

Year	Arrear Target (₹ in Cr.)	Target Achieved (₹ in Cr.)	Target Shortfall (₹ in Cr.)	Target Excess achieved (₹ in Cr.)	Percentage of Shortfall	Percentage of Excess achieved
FY 18	1,000	1,092	-	92	-	9.25
FY 19	4,315	2,159	(-)2,156	-	(-)49.97	-
FY 20	4,044	1,952	(-)2,092	-	(-)51.73	-
FY 21	4,108	1,128	(-)2,980	-	(-)72.54	-
FY 22	3,767	1,673	(-)2,094	-	(-) 55.59	-

*Source: Ministry of Finance letter no. F.No.307/46/2022-PAC-CUS dated 26.06.2023 for FY 22*

The above table depicted that the Department had not achieved the targets fixed by CBIC to recover Customs Duties arrears. The shortfall in target was (-)55.59

*per cent* in FY 22. There was continuous shortfall in achieving the targets fixed to recover Customs Duties arrears since the last four years. The vacancies in overall staff strength may have affected the recovery arrears target. The overall shortage in staff strength was 47 *per cent* as on July 2022.

#### 1.12 Internal Audit

**1.12.1** The internal audit of CBIC and its field formations comprises of technical audits conducted by Directorate General of Audit {DG (Audit)} and audit of payments and accounts conducted by the Principal Chief Controller of Accounts (Pr. CCA). DG (Audit) has its Headquarters located in Delhi, headed by Director General (Audit) with seven zonal units at Ahmedabad, Bangalore, Chennai, Delhi, Hyderabad, Kolkata and Mumbai, each headed by an Additional Director General. Every zonal unit of DGA has area wise jurisdictional control over zonal units of the Chief Commissioner and Commissionerates there under.

**1.12.2** The Customs Act, 1962, provide a statutory framework for conducting Post clearance audit. DG (Audit) had planned two types of Post Clearance Audit i.e. Transaction Based Audit (TBA) and Premises Based Audit (PBA).

**1.12.3** Transaction Based Audit (TBA) means examination of BE/SB for verifying compliance to all the legal provisions and to check for any short levy or non-levy. TBA normally does not require the auditor to visit the premise but if required it may involve a field audit also. During FY 22, a total of 6,03,484 BsE were planned to be audited in TBA. Out of these, audit was conducted for 10,64,167 BsE which were more than the audit planned as it included some BsE from the previous year. DG (Audit) detected duty evasion of ₹747.59 crore, of which duty of ₹164.31 crore has been recovered.

**1.12.4** Premise Based Audit (PBA) means that the legal compliance and correct assessment of Customs duties will be verified at the premise of the importers and exporters. Identification of auditees for the PBA will be done based on the risk parameters. PBA will be conducted once in two/three/five years for Authorized Economic Operator (AEO) Tier<sup>3</sup>-1/Tier-2/Tier-3 respectively. During FY 22, against planned 77 units for audit, 152 units actually audited, as it included some units from the previous year. Duty evasion of ₹290.13 crore was detected by DG (Audit) during PBA. Out of which, duty of ₹27.67 crore had been recovered.

**1.12.5** Pr. CCA conducts internal audit of payments and accounts of CBIC and its field formations. According to information given by CBIC, 92 audit observations amounting to ₹2,80,353 crore<sup>4</sup> pointed by Pr. CCA during FY 22 were pending as on 31<sup>st</sup> March 2022. These mainly consisted of the following irregularities:

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<sup>3</sup> Authorized Economic Operator (AEO) category

<sup>4</sup> Ministry of Finance letter no. F.No.307/46/2022-PAC-CUS dated 05.06.2023 for FY 22

- a) Non recovery of dues from Government Department/State Government bodies/Private parties/ Autonomous bodies- ₹1,30,063 crore (11 cases);
- b) Blocking of Government revenue- ₹128.31 crore (15 cases);
- c) Other irregularities-₹1,50,162 crore (66 cases);

There was an increasing trend in the pending irregularities amount in FY 22 (₹2,80,353 crore) over FY 21 (₹3,335 crore).

On enquiring about reasons for pendency of ₹2,80,353 crore as on 31 March 2022, Pr. CCA stated (January 2025) that these outstanding figures involves; (i) Difference between targeted revenue collections and actual collection (ii) Adjudication cases and (iii) Blocking of Government revenue in Government e-Marketplace (GeM) which should have not been included as outstanding recoveries.

The reply emphasises need for exhaustive scrutiny by the Senior management before reporting irregularities.

### 1.13 Tax Evasion and Seizures

**1.13.1** According to information furnished by MoF, CBIC regarding tax evasion cases detected by DRI during FY 22, the number of duty evasion cases moved down from 940 in FY 18 to 605 in FY 22, while the value increased from ₹3,065 crore to ₹4,604 crore during the same period (**Annexure 2**). However, details of recoveries made in cases detected have not been provided.

**1.13.2** The major commodities (by value) seized as per MoF during FY 22 are 'Narcotics, Gold, Vehicles/Vessels, Cigarettes, Red Sanders, Indian Currency, Foreign Currency, Textiles, Silver, Electronics items and others'. The value of Narcotics seized by DRI was ₹15,966 crore out of total ₹ 17,008 crore.

### 1.14 Human Resource

**1.14.1** Cadre wise rationalisation/reorganisation of Human Resource at all levels for Customs formations in CBIC was last done in the year 2017-18. There was an overall vacancies of 12,532 Customs officers/officials posts (as on July 2022). These vacant posts constituted 47 *per cent* of the total sanctioned strength (26,681). The Ministry may provide the reasons for not filling the vacancies.

**Table 1.14: Human Resources in CBIC**

As on date	Sanctioned Strength			Total Gr. A, B & C	Working Strength			Total Gr. A, B & C
	Gr. A	Gr. B	Gr. C		Gr. A	Gr. B	Gr. C	
01.01.2022	1,280	16,811	8,588	26,679	814	9,530	3,791	14,135
01.07.2022	1,282	16,807	8,592	26,681	763	9,680	3,706	14,149

**Report No. 11 of 2025- Union Government (Indirect Taxes-Customs)**

As on date	Vacancy							
	Gr. A	%	Gr. B	%	Gr. C	%	Total Gr. A, B & C	Overall %
01.01.2022	466	36.41	7,281	43.31	4,797	55.86	12,544	47.02
01.07.2022	519	40.48	7,127	42.40	4,886	56.57	12,532	46.97

*Source: Ministry of Finance letter no. F.No.307/46/2022-PAC-CUS dated 05.06.2023 for FY 22*

#### **1.15 Conclusion:**

India's trade figures for FY 22 revealed that the Imports and exports have increased in FY 22 over FY 21 by 56.82 and 45.76 *per cent* respectively; however, the trade balance for overall trade during FY 22 has further worsened as compared to last four years (FY 18 to 21).

The commodities covered under Chapters 27, 71, 85, 84 and 29 of the Customs Tariff accounted for 68 *per cent* share of India's total imports made during FY 22. While the share of five major commodities exported during FY 22 covered under Chapters 27, 71, 84, 72 and 29 of the Customs Tariff was 42 *per cent* of India's total exports.

Out of the total 20 Zones {11 Customs Zones and nine combined (Customs and GST Zones)}, 10 Zones accounted for 83.42 *per cent* (₹43,203 crore) of total Customs duty arrears pending (₹51,784 crore) during FY 22. Chief Commissionerates of Customs, Ahmedabad had the highest quantum of arrears of Customs Duty in FY 22, followed by Mumbai-II, Bengaluru, Delhi, Mumbai-III and Mumbai – I, Chennai and Bhopal Customs Zones in that order.

The Department had not achieved the targets fixed by CBIC to recover Customs Revenue arrears. The shortfall in target was (-)56 *per cent* in FY 22. There was continuous shortfall in achieving the targets fixed to recover Customs Revenue arrears since the last four years (FY 19 to FY 22).

Out of total ₹9,867 crore undisputed Customs revenue arrears, ₹2,200 crore (22.30 *per cent*) were lying unrecovered for more than five years.

The Ministry may revamp the procedure for recovery of arrears of Indirect Taxes and Customs.



## CHAPTER II

### CAG's Audit Mandate and Extent of Audit

#### 2.1 Authority of the CAG for audit of receipts

**2.1.1** Article 149 of the Constitution of India provides that CAG shall exercise such powers and perform such duties in relation to the accounts of the Union and of the States and of any other authority or body as may be prescribed by or under any law made by the Parliament. The Parliament passed the Comptroller and Auditor General's DPC Act (CAG's DPC Act) in 1971.

Section 16 of the CAG's DPC Act, 1971 authorizes CAG to audit all receipts (both revenue and capital) of the Government of India and of the Government of each State and of each Union Territory having a legislative assembly and to satisfy himself that the rules and procedures are designed to secure an effective check on the assessment, collection and proper allocation of revenue and are being duly observed. Regulations on Audit & Accounts (Amendments), 2020, lay down the principles for Receipt Audit.

**2.1.2** Compliance audit of Customs revenue covers transactions involving levy and collection of Customs Duties, any other levies of Customs, transactions of imports and exports undertaken under various schemes implemented under the FTP and specific compliance areas reviewed by audit from time to time. The transactions covered in this report pertain to Financial Year (FY) 22, but in some cases, prior period transactions have also been reviewed for getting a holistic picture.

#### 2.2 Scope of Audit

**2.2.1** CAG examines the records, selected on a risk based sample by the Audit team (in the absence of holistic pan-India data), of the various functional wings of CBIC, along with the sample of transactional records of Customs field formations relating to imports, exports and refunds. CAG also examines records relating to departmental functions like adjudication and recovery of arrears and preventive functions.

**2.2.2** Further, records of the concerned RAs of DGFT under MoCI in respect of Customs exemption benefits availed by importers/exporters under FTP are examined. Similarly, CAG conducts audit of the Development Commissioners (DCs) of SEZs/EOUs and Software Technology Parks (STPs), including certification of accounts of Central government owned SEZs.

#### 2.3 Audit Universe

**2.3.1** Audit universe for Customs Receipt audit includes CBIC, its Customs field formations and the ports (both Electronic Data Interchange (EDI) linked, non-EDI and SEZ) and transactions executed there under i.e. BsE and SBs.



**2.3.2** Customs field formations are divided into 11 Customs Zones and nine Combined {Customs and GST} Zones with 70 Principal Commissioners/ Commissioners in 20 Zones headed by one Chief Commissioner each. As on 1 April 2022, there were 44 Customs Executive Commissionerates, 13 Customs Preventive Commissionerates, nine Customs Appeal Commissionerates and four Customs Audit Commissionerates.

**2.3.3** For the audit of Export Promotion schemes, the audit universe comprises of the DGFT, its RAs and Development Commissioners of SEZ/EOU/STP. DGFT is an attached office of the MoCI and is headed by the Director General (DGFT). DGFT is responsible for formulating and implementing the FTP with the main objective of promoting India's exports. The DGFT issues scrips/authorizations to exporters and monitors their corresponding obligations through a network of 25<sup>5</sup> regional offices.

**2.3.4** The schemes which are implemented through SEZs and EOUs, are audited at the offices of the respective DCs of SEZs/EOUs.

## **2.4 Access to Auditee data**

Audit relies on Customs transaction data to draw assurance that laws have been applied correctly to prevent loss of revenue. Lack of full access to pan-India data limits the audit scrutiny to test check of transactions selected at the individual Customs field formations and a limited assurance in certifying revenue receipts.

Pan India import and export transactions data for the period FY 18 to FY 22 requisitioned (June 2019/July/September 2020/2022/2023) by Audit in terms of a Memorandum of Undertaking (MoU) signed in March 2015, was not received despite repeated requests. In the absence of pan-India transactional data, audit was conducted by physically visiting 48 out of 70 Commissionerates and using the Customs Receipt Audit (CRA) Module and Import Customs Receipt Audit (ICRA) Module interface of Indian Customs EDI System (ICES), which had their limitations.

Audit has, to the extent possible based on the findings in test check quantified the total number of transactions at risk, through the limited access provided in CRA Module and ICRA Module by the Department. The instances mentioned in this Report are those which came to notice in the course of test audit conducted during the period FY 22 and in some cases earlier year also.

## **2.5 Audit sample**

During FY 22, a test check of transactions was carried out in 48 out of 70 (69 *per cent*) Commissionerates. The audit of Commissionerates of Customs covered 32 out of 44 Executive Commissionerates, 10 out of 13 Preventive Commissionerates, two out of nine Appeal Commissionerates and four Audit Commissionerates. In addition, Audit of licenses/authorisations under various

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<sup>5</sup> With one extension office of Bhopal i.e. Indore

schemes of FTP granted by the DGFT through its RAs was conducted in 20 out of 25 RAs and Seven out of eight Development Commissioner (DC).

Table 2.1: Audit Universe and Sample

Ministry	Audited Entity	Audit Universe	Audit Sample
Ministry of Finance (Department of Revenue- CBIC)	Chief Commissionerates of Customs & Preventive	11 <sup>6</sup>	10
	➤ Principal Commissionerates	70	48
	• Executive Commissionerate	44	32
	• Exclusive Preventive Commissionerate	13	10
	• Appeal Commissionerate	9	2
	• Audit Commissionerate	4	4
Ministry of Commerce and Industry (Department of Commerce- DGFT)	Regional Authority	25	20
	Development Commissioner	8	7

## 2.6 Audit efforts

**2.6.1** During FY 22, 251 Inspection Reports were issued to respective Commissionerates/RAs/DCs containing 2,065 observations and carrying a total revenue implication of ₹9,824 crore.

**2.6.2** Significant and high value cases noticed during audit were issued to the Ministries (MoF/ MoCI) for comments before inclusion in the Audit Report. This report covers 119 audit observations involving revenue implication of ₹831 crore and were issued to both Ministries during March 2023 to April 2024.

**2.6.3** The Ministries responded in 80 out of 119 audit observations issued and Ministry/Departments accepted 118 audit observations, conveying rectification measures involving money value of ₹76 crore in the form of issue of SCNs, adjudication of SCNs and had reported recovery of ₹69 crore in 83 cases of incorrect assessment of Customs Duties.

**2.6.4** The Customs Act, 1962 prescribes special procedures in dealing with Personal Baggage, accompanied or unaccompanied Baggage, Courier and Postal goods including goods purchased through e-commerce and Stores.

Audit have examined the compliance of special Customs procedures for faster clearances made in respect of (i) International Courier goods, (ii) Baggage including unaccompanied baggage and (iii) Postal goods including e-commerce goods and reported findings with revenue implication of ₹12.15 crore in Chapter III.

<sup>6</sup> Customs Zones-11 (Ahmedabad Customs, Bengaluru Customs, Chennai Customs., Trichy Preventive, Delhi Customs, Delhi Preventive, Kolkata Customs, Patna Preventive, Mumbai-I, II & III-Customs.

**2.6.5** In Chapter IV, we have reported irregularities of non-compliance to FTP provisions pertaining to Export Promotion Schemes particularly the 'Irregular refund of IGST to EOUs and AA holders' (Paragraphs 4.3 to 4.3.10) with a revenue implication of ₹736 and sanction of SEIS/MEIS scrips to exporters for ineligible services and exports and Irregular/Excess payment of Duty Drawback with a revenue implication of ₹37 crore (Paragraphs 4.4.1 to 4.8.2).

**2.6.6** In Chapter V, Audit reported significant findings noticed during test check of BsE/SBs and other records at selected Commissionerates with a revenue implication of ₹46 crore. The audit findings pertained to 'Misclassification of imports (Paragraphs 5.6.1 to 5.6.5)', Incorrect application of IGST notification (Paragraphs 5.7.1 to 5.7.5), 'Incorrect application of exemption notifications (Paragraphs 5.7.6 to 5.7.7)' and "Other irregularities (Paragraph 5.8). Audit findings flagged included certain systemic issues and persistent irregularities.

**(A) Systemic issues**

Audit noticed systemic issues in a few import cases wherein the RMS allowed clearance at duty rates lower than the prescribed. The RMS needs to address such issues so that the prescribed import conditions are complied with and applicable duties are automatically charged once the BE passes through the system.

A few cases are mentioned below and also discussed in Chapter V of the Report.

- (i) Short levy of IGST on imports of 'Parts of Railway locomotives or rolling stock (Paragraph 5.7.1).
- (ii) Short levy of IGST on Aniline oil imports (Paragraph 5.7.2).

**(B) Persistent irregularities**

Similar instances of misclassification of imports and 'Non/Short levy of Anti-Dumping Duty on imports' flagged to the Ministry in the previous Audit Reports continue to be reported in the Customs field formations, notwithstanding assurances of the CBIC that their field formations have been sensitised to check similar issues cautiously. A few cases are mentioned below:

- (i) Misclassification of "Mandarin (Kinnow) juice (Paragraph 5.6.2).
- (ii) Misclassification of Ice cream making machinery (Annexure 21, Sl. No.12).
- (iii) Non/Short levy of Anti-Dumping Duty on imports (Paragraph 5.8.1).

**2.7 Revenue Impact of Audit Reports**

In the five reports pertaining to FY 18 to FY 22, Audit has covered 567 audit paragraphs (Table 2.2) involving revenue implication of ₹16,764 crore. Government has accepted observations in 530 audit paragraphs involving amount of ₹568 crore and has recovered amount of ₹246 crore in 374 paragraphs as on Jan 2025.

**Table 2.2: Revenue Impact of Audit Reports**

Year	Paragraphs included		Paragraphs accepted		Recoveries effected	
	No.	Amount (₹ in Cr.)	No.	Amount (₹ in Cr.)	No.	Amount (₹ in Cr.)
FY 18	92	4,795	85	225	56	31
FY 19		10,909	104	69	83	41
FY 20	137	143	130	127	93	40
FY 21	105	86	93	71	59	65
FY 22	119	831	118	76	83	69
Total	567	16,764	530	568	374	246

*Source: Previous year's Audit Reports and ATNs*

## 2.8 Acknowledgement

We acknowledge the cooperation of the Customs Department, DC-SEZ and DGFT in facilitating the Audit by providing the necessary records and information related to the conduct of SSCA, except the non-production of records relating to SSCA in certain cases as mentioned in the Table No. 3.1 and **Annexure 4** of Chapter III of this report. On this account, Audit was constrained in examining the extent of compliance in these cases.



## CHAPTER III

**Subject Specific Compliance Audit (SSCA) on 'Special Customs procedures for Courier, Baggage and Postal goods including e-commerce goods'**

### 3.1 Introduction

Sections 77 to 90 of the Customs Act, 1962 prescribes special procedures in dealing with Personal Baggage, accompanied or unaccompanied Baggage, Courier and Postal goods including goods purchased through e-commerce and Stores. For the sake of convenience, a special classification has been there in the Customs Tariff Act 1975 for personal goods imported through Baggage, Courier and Postal route. By virtue of this classification, the diverse goods that are imported for personal use are classified under one heading and subjected to a uniform rate of duty. This facilitates assessment and ensures faster clearances since the alternative would be to classify each item distinctly and subject the same to the merit rate of duty.

**A SSCA has been conducted to examine the compliance of special Customs procedures for faster clearances made in respect of the following subjects:**

- **International Courier goods**
- **Baggage including unaccompanied baggage**
- **Postal goods including e-commerce goods**

#### 3.1.1 Monitoring of Imports & Exports through Courier Terminals

For fast-track imports/exports of consignments routed through Courier services, CBIC (Board) had appointed 13 Customs airports as International Courier Terminals<sup>7</sup> (ICTs) across India where Customs clearances are given on a fast-track basis through simple formalities in examination of the goods (Notification No.27/2018-Customs (N.T.) dated 28 March 2018). Imports through Courier have been divided into three categories i.e.

- (i) Samples<sup>8</sup> and free Gifts<sup>9</sup>
- (ii) Documents<sup>10</sup> and

<sup>7</sup>1. Mumbai 2. Delhi 3. Chennai 4. Kolkata 5. Bengaluru 6. Hyderabad 7. Ahmedabad 8. Jaipur 9. Trivandrum 10. Cochin 11. Coimbatore 12. Calicut 13. Tiruchirappalli.

<sup>8</sup> Sample-Any commercial samples and prototype of goods supplied free of charge of a value not exceeding ₹50,000 for exports and ₹10,000 for imports and not restricted and prohibited to import/export and does not involve transfer of foreign exchange.

<sup>9</sup> Free gifts-Any gift or articles for personal use of a value not exceeding ₹25,000 for an export consignment and ₹5,000 for Imports and not restricted/prohibited to import/export and which does not involve transfer of foreign exchange. However, duty exemption on gifts imported had been removed from 20<sup>th</sup> January 2020.

<sup>10</sup> Document Include any message, information or data recorded on paper, cards or photographs having no commercial value and non-dutiable and not restricted or prohibited to import/export.

(iii) Dutiable or commercial goods.

Registered Courier companies also called as 'Authorised Couriers' are only permitted to import and export through the Courier Terminals. The assessment and clearance of imported or exported goods carried by an Authorised Courier are regulated by 'Courier Imports and Exports (Electronic Declaration and Processing) Regulations, 2010' {Substituted by Notification No. 74/2019-Customs (N.T.), dated 9 October 2019}. However, these regulations shall not apply to imported/exported goods, requiring testing of samples or import or export of goods under any export promotion scheme other than Export Oriented Unit (EOU) scheme and similar schemes referred to in Chapter 6 of the Foreign Trade Policy, Merchandise Exports from India Scheme (MEIS), in consignment of value up to ₹five lakh and some other goods.

The courier consignments are normally carried by passenger/ cargo aircrafts. In the case of clearance through Land Customs Station (LCS), other modes of transport are used.

### **3.1.2 Monitoring of imports by passengers as Baggage**

Every passenger entering or leaving Indian border has to pass through Customs check. Customs Department is mandated to ensure passengers entering or leaving India carry accompanied baggage and/or unaccompanied baggage in accordance with the permissible quantity/value under Baggage Rules 2016, and do not attempt to smuggle prohibited or banned or sensitive goods. The Customs officials at the airports/ports/ land customs stations must ensure faster clearances and passenger facilitation, concurrently enforcing the provisions of the Customs Act, 1962, and allied laws for assessments.

### **3.1.3 Monitoring of Postal goods including e-commerce goods**

The CBIC had notified 28 Foreign Post Offices (FPOs) in 24 States/UTs for imports and exports of goods. Customs facilities for examination, assessment, clearances are available at these post offices.

In order to facilitate exports and specifically give a fillip to the global outreach of India's exporters via e-commerce (more so to the small & medium enterprises), all Import Export Code (IEC) holders have been permitted to export goods through FPOs. For promoting e-commerce exports through Post, procedures have been explicitly provided in Circular No. 14/2018-Customs dated 4 June 2018. Any IEC holder exporting goods through the FPO will be eligible for zero rating of exports, by way of refund of IGST paid on exports or by discharge of Letter of Undertaking (LUT). In absence of Customs EDI system at FPOs, the Postal Bill of Export (PBE-I) for e-commerce exports are being processed in manual environment. However, for the purpose of refund of GST, data shall be captured and uploaded through an off-line utility (ICAN) provided by DG (Systems), CBIC.

### 3.2 Legal provisions for clearances of Courier, Baggage, Postal goods including e-commerce goods

#### 3.2.1 Courier

The simplified Customs procedures for clearances of courier goods are currently both under manual mode as well as electronic mode, respectively governed under Courier Imports and Exports (Clearance) Regulations, 1998, and Courier Imports and Exports (Electronic Declaration and Processing) Regulations, 2010. They are also regulated by the provisions of Foreign Trade Policy or any other law, for the time being in force.

For clearances under Courier Regulations, separate forms for each category of transaction have been prescribed for electronic and manual mode. Similarly, exports could be made under category Documents, dutiable goods including samples and E-commerce goods.

The manual as well as electronic processing of courier goods is available at the following customs stations:

Manual clearance	Trivandrum, Coimbatore, Calicut and Tiruchirappalli and Land Customs Stations at Petrapole and Gojadanga (West Bengal)
Electronic clearance	Initially at Delhi, Mumbai, and Bangalore, and subsequently extended to Ahmedabad, Chennai, Cochin, Jaipur, Kolkata and Hyderabad

*Source: Office of the ADG (Systems) WZU, Mumbai reply dated 19 April 2022*

The simplified procedure for filing Courier Bills of Entry (CBE) does not apply to the following categories of goods: (i) Goods imported under Duty Exemption scheme applicable to EOUs and units in EPZs, (ii) Imports under EPCG Scheme, (iii) Goods imported against licence issued under FTP and (iv) Goods imported by a related person defined under the Customs Valuation Rules 1988. For these categories of imports, a regular Bill of Entry (BE) prescribed in the BE (Forms) Regulations is to be filed.

#### 3.2.2 Baggage

Baggage goods of a passenger or a member of crew are classifiable under Customs Tariff Heading (CTH) 9803 and levied to a single rate of duty except for motor vehicles, alcoholic drinks, and Tobacco products, and goods imported under license or a Customs clearance permit.

**Customs duty on accompanied** luggage beyond duty free allowance, is assessed depending upon the period for which person had stayed abroad, nature of goods (used or unused), subject to their eligibility as Baggage or whether falling under restricted or prohibited goods.



For the purpose of Customs clearance of arriving passengers, a two-channel system has been adopted:

1. **Green Channel:** If customer does not have any dutiable or prohibited goods; he can go through green channel.
2. **Red Channel:** Person carrying dutiable or prohibited goods should pass through red channel.

**Unaccompanied** baggage which had been in the possession abroad of the passenger and is dispatched within one month or within such further period of his arrival in India is landed in India up to two months before the arrival of the passenger or within such period, not exceeding one year or as allowed by the competent authority for reasons to be recorded. Any article/unaccompanied baggage the value of which exceeds the duty-free allowance admissible under Baggage Rules, 2016 attract duty at the rate of 38.5 per cent

### **3.2.3 Postal goods including e-commerce goods**

All goods not prohibited or restricted for import/ export as per FTP could be imported/exported by post through any of the specified FPOs or its Extension counters. Customs facilities for examination, assessment, and clearance are available at these Post Offices. Import of dutiable goods by letter, packet or parcel posts is prohibited except where such letter or packet bears a declaration stating the nature, weight, and value of the contents. If such declaration is not attached alongside the letter/ packet may be opened for Customs Examination. Any exporter holding a valid Importer-Exporter Code (IEC) will be permitted to export commercial goods by filing a Postal Bill of Export (PBE-I) for exports through e-commerce platforms and Postal Bill of Export (PBE-II) for other goods. These will be checked and granted 'Let Export Order' by the Customs in manual environment at the Foreign Post Office.

### **3.3 Audit objectives**

The Subject Specific Compliance Audit was conducted to seek an assurance regarding.

- (i) Sufficiency of infrastructure and training required for assessments and clearances.
- (ii) Integration of In-house assessments at Courier/Airport/Posts with Customs' ICES towards compliance with the statutory provisions.
- (iii) Compliance to the provisions of the Customs Act, Customs Tariff Act, Tariff notifications, rules and other Customs procedures.
- (iv) Co-ordination of Customs with other agencies.
- (v) Internal Control mechanism

### 3.4 Audit Coverage

This SSCA covered 21 out of 70 Commissionerates of Customs comprising of 44 units i.e. Seven International Courier Terminals, 13 International Airport Terminals, and two Land Customs Stations, 10 Unaccompanied Baggage Terminals and 12 Foreign Post Offices where relevant records were examined pertaining to the period from 2019-20 to 2021-22 (**Annexure 3**).

The SSCA also included analysis/verification of electronic data furnished (10 *per cent* of the total transactions) to Audit by the DG-Systems (CBIC) pertaining to the period from 2019-20 to 2021-22.

### 3.5 Audit Methodology:

- Audit methodology included test check of records/files maintained at Jurisdictional Commissionerates of Customs having jurisdiction over International Airports including Un-accompanied baggage and Courier Terminals, FPOs, Custodians and Authorised Courier agencies. Electronic data available locally at these Terminals and Ports was also test checked.
- Analysis of relevant granular digital data in Customs ICES system, Courier EDI systems and 10 *per cent* digital data supplied by the DG (Systems) beside manual data maintained at Post offices to draw audit observations.

### 3.6 Audit Sample

Total 18,434 records were selected for audit in 44 selected units. The details of the audit universe, sample and the records produced/not produced in respect of cases selected in the units are tabulated in **Table 3.1**.

**Table 3.1: Sample Selection universe**

Auditable unit	Units selected	Total cases in Units selected	Cases selected by Audit	Cases produced to Audit	Cases not produced to Audit	Percentage of records not produced to Audit
International Airport	13	2,92,666	5,115	4,302	813	15.89
Courier Terminal	7	3,57,13,450	3,178	2,993	185	5.82
Un-accompanied baggage	10	63,834	3,404	3,309	95	2.79
Foreign Post Office	12	10,29,79,030	6,536	4,911	1,625	24.86
Land Customs Station (LCS)	2	250	201	48	153	76.12
<b>Total</b>	<b>44</b>	<b>13,90,49,230</b>	<b>18,434</b>	<b>15,563</b>	<b>2,871</b>	<b>15.57</b>

Entry conferences with jurisdictional departmental officers at field formations level were conducted during the period May 2022 to July 2022. The field audits were conducted during the period 15 May 2022 to 15 October 2022 covering the transaction period from 2019-20 to 2021-22.

### 3.7 Non- production of records to Audit

As part of SSCA, relevant records and the information for the period from 2019-20 to 2021-22 were requisitioned from all the selected 44 units under 21 Customs Commissionerates. However, out of total 18,434 selected samples of records/information, 2,871 records/information were not furnished to Audit by 18<sup>11</sup> units under 12<sup>12</sup> Commissionerates of Customs. It is incumbent on the Auditee (Customs Commissionerates/ FPOs) to expeditiously produce records and furnish relevant information to Audit. The Commissionerates-wise number of records/information not produced are given in **Annexure 4**.

### 3.8 Audit Findings

The report comprises a total number of 77 observations which included 11 Systemic and 10 compliance issues and 07 Internal Control issues. The revenue impact of the report is ₹12.15 crore. The jurisdictional Commissionerates of Customs responded in respect of 44 observations and accepted 40 observations. The summary of audit observations is given below in **Table 3.2**

**Table 3.2: Gist of observations**

Sl. No.	Unit	Nature of Issues	No. of Issues incorporated	No. of observations	Replies received/ Partial reply	Revenue impact (₹ in lakh)
1	Audit objective No. 1	Systemic	03	06	06	Nil
2	Audit objective No. 2	Systemic/ compliance	07 (systemic)/ 02 (Compliance)	37	18	645.13
3	Audit objective No. 3	compliance	03	16	12	468.34
4	Audit objective No. 4	Systemic/ Compliance	01 (systemic)/ 05 (Compliance)	03	02	Nil
5	Audit objective No.5	Internal Control	07	15	06	101.06
	<b>Total</b>		<b>28</b>	<b>77</b>	<b>44</b>	<b>1214.53</b>

#### Audit Objective No.1

##### 3.8.1 Sufficiency of infrastructure and training required for assessments and clearances.

As per Regulation 5 of the Handling of Cargo in Customs Areas Regulations (HCCAR), 2009, the Customs Cargo Service Providers (CCSP) (which includes a Custodian) is responsible to provide all amenities and Infrastructure, equipment. Beside, facilities required for Customs EDI service centres, computer systems at the location for processing of documents and for accounting of goods.

<sup>11</sup>18 units (Seven International Airports, Two Courier terminals, One Un-accompanied Baggage Terminal, Seven FPOs, One LCS)

<sup>12</sup>12 Commissionerates [Commissioner of Customs-ACC & Airport-Kolkata, Kolkata (Port), Preventive- West Bengal, ACC-Delhi, Airport-Delhi, Airport-Mumbai, Bengaluru City, Kochi, Air-Chennai, Preventive-Amritsar, Ludhiana, Ahmedabad]

Existence of norms, if any, for infrastructure requirements was not brought by the ICTs, IAs, LCS, UB Terminals, and FPOs authorities, to the notice of the Audit despite enquiries.

Accordingly, to ascertain the sufficiency and status of infrastructure availability for assessments and clearances, a joint physical verification was conducted by the Audit teams and Departmental Officers at selected units and the results are discussed in the succeeding paragraphs.

- **International Courier Terminals (ICT) – Para 3.8.1.1**
- **International Airports (IAs) and Land Custom Stations (LCS)- Para 3.8.1.2**
- **Un accompanied Baggage (UB) terminals/Air Cargo Complexes- Para 3.8.1.3**
- **Foreign Post Offices (FPOs)- Para 3.8.1.4**

#### **3.8.1.1 Sufficiency of infrastructure at International Courier Terminals (ICTs)**

Courier Terminals aims at faster movement of express cargo with limited physical examination based on Risk Management System (RMS) intervention. They also provide 24X7 operations for expeditious clearance with obligations on individuals to provide KYC documents including proof of address and authorisation to courier operators to pay duty on their behalf for expeditious clearance.

The results of the joint verification at seven<sup>13</sup> selected ICTs revealed **(Annexure 5)** the following shortcomings:

##### **➤ Non-existence of norms for X-ray scanner requirements**

Existence of norms, if any, for X-ray scanner requirements was not brought to the notice of the Audit despite enquiries.

##### **➤ Number of X-ray scanners were not proportionate to the volume of consignments handled**

- i) In Ahmedabad, Kolkata and Delhi, the Custodians were managing with one X-ray machine at imports. Any breakdown would take its own turnaround time affecting the screening of courier parcels. At ICT Kolkata, there was no X-ray machine for scanning courier parcels (for both import and export), until the commencement of the Express Cargo Clearance System (ECCS) in October 2021 **(Annexure 5)**. Further, Air Cargo Inspection System (ACIS) was also not installed despite several correspondences for procurement and installation of ACIS made with the Custodian.

##### **➤ Older X-ray machines with limited functionalities**

- a) Audit noticed that the X-ray machines at Mumbai and Ahmedabad were old (2009-2011) and slow in scanning and image movements and were not capable

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<sup>13</sup> Air Cargo Complex-Ahmedabad, Bengaluru, Chennai, NCT-Delhi, Kochi, Kolkata and ICT-Mumbai

of generating alerts based on specific shapes and nature of images or concealed consignments, apart from leading to shutdowns on heavy usage.

The Mumbai Customs authorities replied (January 2023) that upgradation to dual view advanced x-ray machines was taken up with the Custodian and two such machines at export side and one machine at import side has been installed.

- b)** In Commissionerate of Customs, Ahmedabad, X-ray machine at export area was out of order for more than one month due to non-availability of spares.

➤ **Clearance areas not under surveillance**

- a)** In Commissionerate of Customs, Ahmedabad, the X-ray machine for exports was not under CCTV coverage. Moreover, goods released for exports passed through a road for uploading into aircraft, but this road was not under CCTV surveillance making it prone to thefts.

➤ **Absence of specialised equipment /Dog squads**

- a)** Carat meters were available only at two units (Ahmedabad and Kolkata Airport).  
**b)** Drug detection kits were available only at three units (Mumbai, Kolkata and Bhubaneswar).  
**c)** Dog squads were available only at four units (Mumbai, Ahmedabad, Chennai and Kochi).

**All the above inadequacies are making Courier terminals vulnerable to trafficking of illegal goods.**

As regards IT infrastructure to be provided by the Airport operators, as per CBIC connectivity protocol, it was found to be adequate at all seven ICTs test checked, where ECCS was operational.

**3.8.1.2 Sufficiency of infrastructure at International Airports (IAs) and Land Custom Stations (LCS)**

There are 31 International Airports<sup>14</sup> and 91 Land Customs stations (LCS) in India, and Audit covered 13 International Airports and 02 LCS spread over 13 states<sup>15</sup> to ascertain sufficiency of scanning and noticed the following:

**(i) Installed equipment was not put to use.**

At CCS International Airport (CCSIA), Lucknow, there were two X-ray Baggage Inspection System (XBIS) Machines installed for scanning baggage of international passengers (**Annexure 6**). These machines were owned and operated by Customs staff. A Joint physical verification with the Customs Department revealed that only one of the two machines was used at a time because the conveyor belts of each

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<sup>14</sup> Circular No. 28/2001-Customs dated 10 May, 2001

<sup>15</sup> Telangana, Bihar, Delhi, Gujarat, Karnataka, Kerala, Maharashtra, Orissa, Punjab, Rajasthan, Tamil Nadu, Uttar Pradesh and West Bengal.

machine were joined (May 2022) by the Custodian, M/s. 'A' Lucknow International Airport Limited (ALIAL). The second machine was kept idle. Accordingly, an expenditure of ₹63.20 lakh incurred on second machine installed in March 2022 was not put to gainful use. Additionally, the warranty/guarantee cover of the machine lapsed without utilisation.

On being pointed out, the Department attributed the non-utilisation of the installed machine to shortage of space and insufficient staff.

The fact remains that non-standardisation of the norms for requirement/ utilisation of the infrastructure led to mix-up.

Thus, non-standardisation of norms in terms of number of machines/equipment/ installation requirements with reference to flow of passengers and risk perceptions vis-a-vis compliance by the Custodian could not be assured. This may compromise security and risk assessment. Ministry's reply was awaited (January 2025).

### **3.8.1.3 Sufficiency of infrastructure at UB Terminals/Air Cargo Complexes**

The joint inspection with departmental officers at 10 Unaccompanied baggage (UB) terminals<sup>16</sup> for assessment of available infrastructure revealed the deficiencies as discussed in the succeeding paragraphs below:

- i) At ICD Sanathnagar, Hyderabad, the X-Ray machine was installed in September 2001 by the Custodian, M/s. 'B' Limited, but it was placed at the wrong location not accessible to trucks and thereby the machine was sparingly used. As a result, the unaccompanied baggage had to be physically verified.

Customs Hyderabad stated that proper installation of luggage Scanning Machine and its availability for Customs Scanning work would be taken up with the custodian.

- ii) At JNCH, Mumbai, despite Commissioner (NS-I), JNCH directions<sup>17</sup> for 100 *per cent* examination of containers marked as suspicious, Audit noticed that in case of five Baggage Declarations (BDs) out of 129 BDs only 30 *per cent* examination was made.
- iii) At ACC Kolkata and Ahmedabad, goods were stated to have been subjected to physical examination, but there was no audit trail to check the veracity of this fact.
- iv) At ACC, Lucknow the UB inspection was done by a private agency without Customs supervision. The Department replied that Custodian was under

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<sup>16</sup> ACC- Ahmedabad, ACC-Bengaluru, Customs House, Kochi, UB Terminal, Chennai-I Commissionerate, UB Terminal-CCSI Airport, Lucknow, ICD Sanathnagar-Hyderabad, ACC-NSCBI Kolkata, JNCH--Mumbai (M/s. 'C' Multimode CFS), International Airport-Jaipur, Import shed, ACC-Delhi,

<sup>17</sup> Standing Order No. 17/2019 dated 16 August 2019 and Public Notice No. 31/2021 dated 30 March 2021

obligation to do it as per the government rules, it was incumbent upon them to detect hazardous and explosive materials.

Ministry's reply in case of JNCH-Mumbai, ACC-Kolkata and ACC-Ahmedabad was awaited (January 2025).

#### **3.8.1.4 Sufficiency of infrastructure at Foreign Post Offices (FPO)**

A committee constituted (July 2019)<sup>18</sup> by the Director of Logistics CBIC to draw norms/guidelines for providing infrastructure/ equipment at the FPO, recommended to equip every FPO with XMIS, XBIS scanners, Carat Meters, Handheld Detectors, Narcotics and Explosive Trace Detector apart from Canine Squad.

##### **(i) Non-existence of infrastructure norms**

Audit observed that no norms for provision of infrastructure by the Postal Department for Customs facilitation had been prescribed. In fact, much of the infrastructure such as scanning machines, testing tools, computers etc., were arranged by Customs themselves.

The results of the Joint inspection of FPOs at 12 locations about availability of the infrastructure had brought out the following:

##### **(ii) Non-availability or insufficient scanners**

Out of 12 FPOs test checked, four FPOs (Ludhiana, Bhubaneswar, Kochi and Varanasi) were not having scanners, while two FPOs (Hyderabad and Jaipur) had limited capacity, the scanning of import and export consignments was at risk of clearance without appropriate assessments, relying solely on assessment officer's competence (**Annexure 7**).

**In the FPOs where scanners and other equipment were available, following deficiencies were noticed:**

- i)** At FPO Varanasi, the machine was out of order for more than seven months (during the period 3 December 2020 to 27 July 2021) and alternative arrangements made for clearances were not available in the documents.
- ii)** At FPO, Hyderabad, scanned images of XMIS were not clear and identifiable.
- iii)** At FPO Ludhiana, Post office, Millerganj was notified (December 2019) as Customs area for FPO. XMIS worth ₹18.81 lakh installed at new FPO, Millerganj was not put to use even after lapse of about four years, as FPO, Ludhiana had not been shifted to its new location till September 2023 and mail parcels were being checked manually at old FPO. As a result, not only the expenditure of

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<sup>18</sup> Directorate of Logistics, CBIC, letter dated 12.9.2019 issued in file F.No.441/37/2018/EQ/XMIS

₹18.81 lakh remained unfruitful but the intended objectives of installation and commissioning of XMIS were not achieved. Further, the Department had awarded Centralized Comprehensive Annual Maintenance Contract (CCAMC) for maintenance of the machine (December 2019) for a period of five years i.e. up to 2024 leading to expenditure for machinery which is lying idle. The amount of expenditure incurred on the maintenance was not known.

Ludhiana, Customs authorities stated that to keep the machine updated and functional, maintenance of XMIS was required.

- iv) At FPO, Kolkata and Delhi, the scanning machines were not in serviceable condition.
- v) At Ahmedabad, Chennai and Delhi FPO's narcotic testing kits were not available. While testing kits at Bhubaneswar and Kolkata had expired life.
- vi) In FPO Mumbai, 26 consignments of narcotic goods were seized during FY 22. The print media had also highlighted drug trafficking through FPO, Mumbai and incorrect KYC declarations.
- vii) Canine squad was available at only two units (Delhi and Mumbai) out of 12 units test checked.
- viii) Further, Carat meter was non- functional since 2021 at FPO, Mumbai. Purity of metals was relied upon on Approved valuer certificates, which were judgmental and not objective, although there was a significant jewellery export from this FPO. At other 11 FPOs, Carat meters were not available, although exports of jewellery could be made from these FPOs.

Absence of sniffer dogs' facility at FPOs, drug detection kits and limitations of scanning machines to distinguish the narcotics, rendered FPOs vulnerable to drug trafficking. Ministry's reply was awaited (January 2025).

#### **3.8.1.5 Sufficiency of training module for meticulous examination of Baggage/ Courier/ Postal goods.**

The X-Ray scanners are used to inspect baggage for dutiable, contraband and prohibited items. The image analyst needs to have necessary skills and experience to recognize different threat objects in a limited window of time. Skilled screeners would be able to identify suspicious images in a more efficient manner. The proficiency test mechanism like, special perception, colour identification, object recognition and identification of suspicious objects within complex images tests helps the screener to keep their knowledge up-to-date and helps them to take quick decision on clearance of baggage.



Audit noticed that un-trained screening officers were posted for screening the baggage for detecting dutiable/contraband/narcotics etc. at Nine<sup>19</sup> out of 13 IAs covered in Audit.

Although at four International Airport locations viz. Mumbai, Chennai, Bengaluru and Hyderabad, the Department stated to have posted trained staff. However, no training credentials of the officers were furnished to Audit nor any institutionalized training programme entailing specific time-period and conduction of proficiency test after conclusion of training were produced.

The Department in respect of test checked three ICTs (Mumbai, Chennai and Kochi) and UB Centres (Lucknow) stated that the officers were trained in National Academy of Customs, Indirect Taxes and Narcotics (NACIN) training centres or during induction training programme, or in-house sharing of skills from experienced staff. However, no details were furnished about institutional training programme and proficiency tests conducted.

#### **3.8.1.6 Manpower norms and Space requirements**

Adequate Manpower is an important requirement of Customs to facilitate the passenger and cargo clearances with correct assessments and to prevent smuggling and drug trafficking activity. Audit noticed shortcomings in manpower assessment and space requirements for Customs activities which are discussed in the succeeding paragraphs:

- **International Courier Terminals (Paras 3.8.1.6; A and B).**
- **International Airports (Para 3.8.1.6 C).**

#### **Manpower norms and space shortage at ICTs**

##### **(A) Manpower assessment:**

The Customs manpower at ICT for assessment and examination of the consignments is posted on cost recovery basis. The manpower sanctioned at ICT, Mumbai was 37 as per Boards Circular No.16/2013-Customs dated 10 April 2013 and the same was continued without any review in the recent past.

Audit noticed deployment of excess manpower at ICT-Mumbai on adhoc basis because of not reviewing the sanctioned strength commensurate with increasing volumes of courier cargo.

Extra manpower required at ICT, Mumbai, mostly at Appraiser and Inspector cadres was deployed on ad-hoc basis, sometimes exceeding more than double the sanctioned strength in those cadres as shown in the **Table 3.3**. Though this extra

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<sup>19</sup> CC Ahmedabad, CC ( ACC & Airport)- Bengaluru, CC (Preventive)-Amritsar, CC (Air) Chennai-I, CC, Airport-Delhi, CC (Airport) Hyderabad, CC (ACC & Airport)-Kolkata, CC (Preventive)-Lucknow, and CC (Airport) Zone-III, Mumbai

deployment was justifiable with increasing volumes of courier cargo from 10.24 lakh bills to 34.13 lakh bills during 2019-20 to 2021-22, standardisation of man power and time to time review of sanctioned strength was not found on the record nor shared with the Audit. Additionally, the Custodian had outstanding dues of cost recovery charges<sup>20</sup> as explained in Para 3.10.1 of this report.

Table 3.3: Men in Position at ICT Mumbai

As per	AC/ DC	Appraiser/ Superintendents	Inspector/ Examiner	STA/TA	Sepoy	Total
<b>Sanctioned Strength</b>	<b>4</b>	<b>9</b>	<b>12</b>	<b>4</b>	<b>8</b>	<b>37</b>
MIP as on March 2020	4	23	26	2	6	<b>61</b>
MIP as on March 2021	3	24	17	3	6	<b>53</b>
MIP as on March 2022	4	29	12	2	5	<b>52</b>

### (B) Space constraints impeding the increase of Courier operators

Because of space crunch at ICT Mumbai, the Department had kept pending 30 number of fresh applications for registration as Courier Operators since 2018. Space shortage was attributed to slow movement of goods due to KYC compliances, poor pre-filling of CBEs, and higher marking of CBEs (around 16 *per cent*) for examination and assessment and poor disposal of unclaimed/uncleared goods. Approximately 12 Metric Tonne of goods were on an average stored in the terminal at any given point of time and sometimes goods spill over to conference rooms, office area and aisles.

Further, the space designed for staff strength of 37 was not sufficient for Customs officials deployed as on March 2022 (up to 52) which compromises increased compulsory examination of goods. Audit noticed failure in monitoring of uncleared goods from monthly reports. The available space (not meant for storage) was increasingly occupied by un-cleared goods which increased from 70,624 packages (August 2020) to 1,19,794 packages (March 2022).

The space constraints and manpower assessment was not reported from the other test checked Courier Terminals. The other major Courier terminals at Bengaluru and Delhi had multiple Custodians and each having their own set up.

**Accordingly, absence of Infrastructure norms with clear specifications catering to the needs of Courier Terminals coupled with space shortage had affected clearances and registration of new ACOs and assessments at Mumbai.**

### (C) Shortage of Manpower for Customs Facilitation at International Airports

Audit noticed that there were vacancies in various cadres in the range of 14 to 75 *per cent* as on March 2020, thereby raising the risk of inaccurate and delayed assessments beside ingress of restricted/illegal items. Shortages in manpower were noticed at Mumbai, Lucknow and Gaya International Airports.

<sup>20</sup> The Custodian of Customs area shall bear the cost of the Customs officers posted for assessments.

- i) At CSMIA, Mumbai against sanctioned strength of 664 staffs, a total of 297 remained vacant as on 31 March 2020 (45 *per cent* shortage), although Mumbai Airport was the second busiest airport and works around the clock and Customs Officers had to work in 12-hour shifts. The Department attributed the shortage due to non-filing of vacant posts arisen out of promotions/retirement/deputation and non-availability of new staff.
- ii) At CCSIA, Lucknow there was a shortage of 44 *per cent* in Group A & B Officers.
- iii) At Gaya International Airport, the shortage was in the range of 14 to 75 *per cent* among cadres of Superintendent, Inspectors, and group C officers.

**Conclusion:** The Department does not have distinct infrastructure norms for Customs facilitations each for International Airports, ICTs, UB Centers and FPOs. They are broadly covered under HCCA Regulations, 2009 which are applicable to all Custodians for all Ports. However, quantity of the machines, equipment and tools required and their technical specifications had not been uniformly prescribed and were not insisted upon to the Custodian either.

Manpower shortages, space shortages and absence of institutional mechanism for training of screeners are making these ports not only vulnerable to illegal traffic but also delayed the clearances.

**Recommendation No.1:** Ministry may review the requirements and maintenance of X-Ray machines/ scanners and install technologically advanced machines for effective, speedy and precise assessments envisaged while creating these infrastructures at all the Courier Terminals/Airports/UB terminals/Foreign Postal offices.

**Recommendation No.2:** Ministry may consider need for standardizing the requirements of equipment, space norms, manpower, training norms at the policy level to be followed uniformly across all Courier Terminals/Airports/UB terminals/Foreign Postal offices for effective Customs services/ assessments and facilitation to the trade and the passengers. Monitoring of pending clearances need to be strengthened for availability of additional space towards faster assessments.

**Audit Objective No: 2**

**3.8.2. Integration of In-house systems at Courier/Airport/Posts with Customs' EDI System (ICES) towards compliance with the statutory provisions**

Audit noticed following Systemic and compliance issues while examining integration of In-house Systems with Customs ICES (EDI System) for clearances made through Courier terminals/ Airports/ Foreign Post Offices. The issues are discussed in subsequent paras.

- a) Express Cargo Clearance System(ECCS)- **Paras 3.8.2.1 to 3.8.2.2**
- b) Electronic Baggage Receipt (eBR) module- **Paras 3.8.3.1 to 3.8.3.10**
- c) Un-Accompanied Baggage (UB) module- **Paras 3.8.4.1 to 3.8.4.7**
- d) Postal clearance module- **Paras 3.8.5.1 to 3.8.5.9**

### Systemic Issues

#### 3.8.2.1 Assessments made by Express Cargo Clearance System (ECCS) and Courier system compliance with Customs Law and procedures

At ICTs, manual clearances were being followed up to 2018. Courier Regulations (Electronic clearances), 2010 initiated electronic processing of courier goods. Electronic processing initially started at Mumbai, Delhi, Bengaluru and ECCS is now operational only at nine ICTs<sup>21</sup>.

ECCS is a standalone software application for electronic clearance of courier goods by Customs. Due to infrastructure constraints, the ECCS rolling out to other ICTs got delayed. CBIC had migrated the ECCS application to CBIC Data Centres in June 2020 and subsequently extended to other ICTs.

**Audit's request for access to ECCS system to check sample Courier Bills of Entries and related documentation in the system was not acceded.** Accordingly, Audit could not ascertain whether ECCS is completely compliant with Customs laws and procedures and the extent of its integration with Customs EDI systems (ICES, ICEGATE), and SEZs EDI system (sezone, NSDL) as well as procedure of online transshipments of goods from Courier Terminals to other Customs ports and vice versa.

Further, it was also not clear whether other Participating Government Agencies (PGAs) are also on board as certain imports require No Objection Certificates from PGAs. Additionally, whether the system is integrated for sharing of import and export data with RBI for monitoring foreign exchange transactions and their realisation through Authorized Dealer (AD) Banks is also not known. However, ECCS was integrated with banks for online discharge of duty payments. The Department had confirmed its standalone nature in function.

#### 3.8.2.2 Data analysis

DG, System, CBIC provided 10 *per cent* ECCS Courier import data (2019-22) data pertaining to nine airports<sup>22</sup> of the Country which was analysed to evaluate the systemic compliance to the Customs procedures. Additionally, data made available at local level (Mumbai and Bengaluru) was also analysed.

<sup>21</sup>Initially at Mumbai, Delhi, Bengaluru now extended to Ahmedabad, Chennai, Kolkata, Cochin, Hyderabad and Jaipur (Addl. DG (Sys), WZU, Systems reply dated 19th April 2022).

<sup>22</sup> Ahmedabad, Bengaluru, Chennai, Cochin, Delhi, Hyderabad, Jaipur, Mumbai and Kolkata

Analysis of the data carried out to evaluate the systemic compliance to the Customs procedures revealed that there were issues relating to:

- **Time limit for filing Courier Bill of Entry**
- **Delayed Customs clearances**
- **Other shortcomings.**

Few issues are discussed in the succeeding paragraphs:

**(i) No time limit prescribed for filing of Courier Bill of Entry**

Bill of Entry for imports through regular mode must be filed by the end of the day preceding the day of arrival of aircraft, otherwise late charges would be levied automatically in case of non-compliance (Section 46 of the Customs Act, 1962 as amended vide Circular No.08/2021 dated 29 March 2021). However, for Courier imports no such mandatory pre-filing of CBE has been prescribed, thereby no charges for late filing could be levied.

The absence of regulatory legal mechanism for mandatory advance filing of CBE would not only impact collection of revenue but also had bearing on the turnaround time.

**(ii) Delayed Customs clearances- Dwell Time Analysis**

Dwell time is the measure of time elapsed from the time the cargo arrives in the Customs Station till its clearance is provided by Customs. ECCS has enabled the Authorized Courier Operators (ACOs) to file electronically Courier Bills of Imports (CBE) and Courier Bills of Exports (CSBs) in advance up to 30 days prior to the expected landing of goods and enable advance processing of Bills by Customs. Supporting documents like invoices, packing list, bill of lading, manifest filing and other documents could be uploaded in the system. ECCS had digitized the Customs processing compliances and clearances to imports and exports courier cargo. Moreover, Courier Terminal runs 24X7 with a targeted delivery within 24 hours.

Audit had attempted Dwell time analysis (**Annexure 8**) at four<sup>23</sup> locations with courier data furnished by the Department for the period 2019-20 to 2021-22 and noticed that:

At ICTs Mumbai, Bengaluru, Ahmedabad and Delhi during 2019-20, clearances of import consignments took more than one day in 18, 26, 63 and 80 *per cent* respectively.

In reply, ICT Mumbai authorities had furnished the following figures regarding Dwell time analysis on hourly basis.

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<sup>23</sup> Ahmedabad, Bengaluru, Delhi, Mumbai,

**Table 3.4: Dwell time in clearances from ICT, Mumbai (in hours)**

Year	Dwell time for prior filing of CBE	Dwell time for post filing of CBE	Dwell time for query or exam	Total Dwell time (in hrs) Col. 2+ 3 + 4
(1)	(2)	(3)	(4)	(5)
2019-20	8.93 (51%)	21.85 (36%)	116.33 (13%)	49
2020-21	11.93 (44%)	44.42 (43%)	214.51 (13%)	90
2021-22	11.30 (46%)	26.50 (39%)	180.54 (15%)	73

It is evident from the ICT Mumbai reply that the target time of 24 hours clearance was achieved only in cases of prior filing of CBsE. Additionally, there was a declining trend in clearances (Prior filing) from 51 *per cent* to 46 *per cent* during the same period. Prior filing of CBsE was less than 50 *per cent* of all the import clearances during FY 20 to FY 22.

However, dwell time taken for clearances in cases of CBE filed after arrival (post filed) was more than the target time of 24 hours during the period FY 20 to FY 22. The clearances took 49 to 73 hours against target turnaround time of 24 hours which defeated the objective of setting up a distinct infrastructure for express clearances.

**(iii) Weak validation controls over filing of relevant CBsE**

**(A) Acceptance of incorrect Courier Bills of Entry**

Regulation 5 of the Courier Imports and Exports (Electronic Declaration and Processing) Regulations, 2010 prescribed that for consignments with value not exceeding one lakh rupees, Courier Bill of Entry in Form 'D' (CBE-XIII) must be filed and for other dutiable consignments exceeding values more than one lakh rupees Courier Bill of Entry Form 'E' (CBE-XIV) must be filed. It requires additional disclosures such as country of origin, related party etc. Under manual procedures, Regulation 5 of the Courier Imports and Exports (Clearance) Regulations, 1998 CBE-III for import of documents and CBE-V for import of goods was prescribed.

- a) At Bengaluru ICT, it was observed that in respect of import consignments where the value was greater than ₹one lakh, Forms CBE-XIII was filed (3,319 nos) instead of Forms CBE-XIV and ECCS systems had accepted such forms in contravention of the aforesaid provisions.
- b) At ICT Kolkata, it was noticed that in 15 CBsE out of 265 CBsE produced to Audit, for importing 56 import-consignments of documents, CBE-V was accepted as against CBE-III, in manual mode of processing.

**(B) Irregular import of personal goods as commercial samples**

Commercial samples up to value of ₹10,000 are exempted from Customs duty and need to be filed in CBE-XII in Form C quoting IEC code {Courier Imports and Exports

(Electronic Declaration and Processing) Regulations, 2010}. However, import of personal goods need to be filed in Form CBE-XIII, classifying under CTH 9804 and attract duty at the rate of 42.08 *per cent*. In the absence of IEC code, common IEC could be used (Para 2.07 of HBP 2015-20), while importing the goods.

Audit noticed that in the sample test checked at three ICTs {Bengaluru; 144 CBsE- Mumbai; 62 CBsE and Kolkata- 02 CBsE) incorrect CBsE were allowed to be filed and cleared. CBsE for import of commercial samples were filed for personal goods and vice versa and incorrect exemption benefits were availed. The error resulted in loss of duty to the tune of ₹0.65 lakh (Bengaluru- ₹0.51 lakh; Mumbai ₹0.14 lakh).

**This indicates that ECCS lacks proper validation controls over filing of correct CBE for import of dutiable personal goods and commercial samples which needs to be addressed.**

### (C) Incorrect application of Exchange rate at ICTs

Section 14 (1) of the Customs Act 1962, provides that the value of the imports and exports shall be the transaction value of such goods to be calculated with reference to the rate of exchange as in force on the date of presentation of a Bill of Entry/ Shipping Bill.

(i) At ICT Mumbai, analysis of Courier Import data of CBE filed ( CBE-XIII and XIV) pertaining to FY 21 revealed that in 19,788 BsE (four *per cent* of the total 4,71,848 BsE), Exchange rates adopted for computing Assessable value were different from the rates notified by the Board which resulted in over and under assessments (Table 3.5).

**Table 3.5: Incorrect adoption of Exchange rate FY 21 - ICT, Mumbai**

FY	Type of BE	Total No. of BE	No. of Bills over assessed	Total over assessment (₹ in lakh)	No. of Bills under assessed	Total under assessment (₹ in lakh)
FY 21	CBE-XIII	3,27,225	15,570	6.45	3,030	2.66
	CBE-XIV	1,44,623	1,163	39.87	25	0.69
	<b>Total</b>	<b>4,71,848</b>	<b>16,733</b>	<b>46.32</b>	<b>3,055</b>	<b>3.36</b>

The Department while accepting the observation stated that due to some technical issues, incorrect exchange rates were reflected in ECCS in some cases, and steps were being taken to issue demand notices in undervaluation cases. The response is silent about cases of over assessments done. Further progress was awaited (January 2025).

(ii) At ICT Ahmedabad, analysis of DG (Systems) data revealed that in respect of 10,844 CBsE (16 *per cent* of 68,765 CBsE) incorrect Exchange rates were applied. Of this, excess rates was applied in 1,117 cases while in the remaining 9,727 cases, short Exchange rate was applied.



The fact remains that occurrence of these cases indicated at weak validation controls which needs to be addressed.

**Ministry in one of their responses to Audit Report on “IT Audit of ICES 1.5 (CAG’s Audit Report No. 14 of 2023- Sub para on Non-updation of Exchange rates)” stated that based on Exchange Rate Notifications, the Directory Officer after getting the approval of Directory Manager of Directory Management Site (which is ICD, Patparganj ) makes changes in ICES.**

Accordingly, DG-Systems should investigate the reasons for inconsistency highlighted under ICTs (Mumbai and Ahmedabad) and review the complete courier data for occurrence of inconsistency despite Ministries’ assurances of changes in ICES.

**(D) Short/non-levy of duty on personal goods**

Imports of dutiable goods for personal use (except prescribed exceptions) by Air or post are classified under CTH 9804 and attract aggregate duties at rate of 42.08 *per cent* in terms of Notification No. 50/2017-Customs dated 30 June 2017.

Data analysis revealed cases of short levy of duty on personal goods for reasons of incorrect application of duty rate, misclassification or non-submission of exemption certificate from competent authority in two ICTs {Bengaluru-173 cases plus cases of life saving drugs, Kolkata- 8 cases}.

This resulted in short/non-levy of duties aggregating to ₹26.19 lakh (Bengaluru ₹24.94 lakh; Kolkata ₹1.25 lakh).

**(E) Short levy of duty on Import of gifts**

Bonafide personal gifts up to the value of ₹5,000<sup>24</sup> were exempted from import duties. However, observing the misuse of this benefit by importers, DGFT vide Notification No.35/2015-20 dated 12 December 2019 prohibited the import of gifts except on payment of full applicable duties. Board vide Circular No.4/2020-Customs dated 21 January 2020 clarified that full applicable duties means tariff rates as per the Customs Tariff Act i.e., BCD + SWS and IGST (77.28 *per cent* of the assessable value). Hence the gifts, which were exempted from duties up to the value of ₹5,000 are no longer duty-free from 12 December 2019.

Short levy/non-levy of ₹3.16 crore in four ICTs (Bengaluru, Delhi, Kochi and Mumbai), in cases of personal gifts imported under CTH 98049000 in 4,447 CBSE were noticed.

**(i)** Similarly, analysis of commercial gifts cleared through ICT- Bengaluru, Kolkata and Mumbai revealed short levy of ₹36.68 lakh in 1,496 CBSE (out of 6,73,207 bills). The short/non-levy ensued because of either classifying commercial goods

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<sup>24</sup>Vide Notification No.77/2017-Customs dated 13.10.2017 which inserted Sl.No.608A in Notification 50/2017-Customs



in respective tariff headings or filing as gifts which was meant for commercial samples and vice versa (Form CBE-XII).

The ICT Mumbai authorities reported (2023) that action has been initiated to recover dues and also stated that a letter to DG systems has also been issued requesting to make necessary changes in ECCS to check such issues.

NCT, Delhi replied (May 2024) that in 05 out of 15 CBEs the importer had inadvertently mentioned the word Gift in their AWBs/invoices. However, no evidence had been provided to audit in this regard.

The reply is not acceptable as rates of duties are applicable from the notification date and not from the date of clarification, if any, issued.

**Ministry may examine the weakness in the ECCS system, which failed to flag the inaccuracy and subsequent incorrect levy of duty.**

**(F) Non-adherence to value cap on exports through Courier**

Exports through a registered courier service is permitted as per Notification issued by Department of Revenue (DoR). Accordingly, Customs<sup>25</sup> had fixed the cap of ₹ five lakh per export consignment through Courier. However, for export consignments where the waiver for guaranteed remittance or specific permission has been obtained from the Reserve Bank of India, consignment more than ₹ five lakh may also be allowed.

Examination of 178 sample of Courier Shipping Bills of the period 2019-20 to 2021-22 revealed that the prescribed export limit cap of ₹ five lakh was not adhered to in two ICTs {Mumbai -54 CSBs (out of 150 CSBs ), Kolkata 09 CSBs (out of 28 CSBs)}.

It was also noticed that to circumvent the limit cap of ₹ five lakh per consignment, exporters had filed more than one shipping bill (CSB-V) for the same consignee on same day and for the same destination in 15 export consignments.

**(iv) Other shortcomings in ECCS application at user level**

Following limitations were also noticed at user level in ECCS application:

**a)** At ICT, Kolkata, Chennai, Mumbai no active module was available to Customs staff to generate any kind of reports from the System. Consequently, generation of reports was not available at user levels. The Staff had to depend on technical team of maintenance contractor for reports generation.

**b)** Data furnished to Audit at NCT Delhi had many deficiencies which are:

Single CBE contains multiple importers, suppliers, country of origin etc., rates of duties, notification numbers were different for same type of goods, same

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<sup>25</sup> Notification no. 69/2018-Customs dated 3 August 2018

assessable values for different quantity of items imported, irregular BCD rates were shown in the data,

- c) At ICT Chennai, 14 out of 50 shipping bills verified in Audit had no relevant documents such as Airway bills/ invoices have been uploaded nor were invoices numbers mentioned in SBs.
- d) Data received from DG (system) in respect of ICT Ahmedabad had following errors:

Names and addresses of the consignor and consignee were missing. Description of goods as mentioned in the two separate columns {'Goods description column' / 'House Air Waybill (HWAB Description)'} differs. Further, classification of these goods under CTH was not in harmony with description of the goods and BCD/ IGST levied was either Nil or 0 (Zero). The notification numbers and the serial numbers mentioned to claim the exemptions were incorrect.

In absence of audit trail, uploading of required documents, generation of reliable data, Audit could not ensure the proper compliance to the Customs procedures prescribed under Courier regulations. It was also not assured that closing inventory as per ECCS matches with physical inventory available with the Custodian at a given time.

**Conclusion: ECCS had weak validation controls over duty assessment for gifts and personal imports. This resulted in incorrect application of exchange rates, acceptance of incorrect forms for imports, higher dwell time, weak controls on quantitative and value limits for export consignments. Non-availability of active module to Staff at user levels for reports generation and errors in data furnished to Audit represents numerous other limitations of ECCS application. These weaknesses resulted in improper assessments and subsequent cost to revenue.**

**Recommendation No 3: To make ECCS more compliant to the Customs procedures, the validation controls and dwell time needs to be reviewed thereby ensuring faster Courier goods clearances. Internal control measures also need strengthening by introduction of Audit and monitoring modules with proper roles for generating reports at user level.**

### 3.8.3 Compliance of electronic Baggage Receipt (eBR) system with Customs Law and procedures for passenger baggage

#### A. Systemic issues:

##### 3.8.3.1 Non declaration of mandatory information of accompanied baggage in the prescribed form

Rule 3 of Customs Baggage Declaration Regulations, 2013 (as amended)<sup>26</sup> stipulates that all passengers on arrival in India and have anything to declare or are carrying dutiable or prohibited goods are required to declare their accompanied baggage in the prescribed form<sup>27</sup>. Similarly, in terms of Import Manifest (Aircraft) Regulations, 1976, the captain and the crew members of the aircraft are required to submit list of properties/property statements.

Audit observed in eight<sup>28</sup> IAs that the Baggage Declaration Form (BDFs) filled by the passengers were incomplete and the Department did not maintain any data of BDFs and Property Statements. Further, the Department was accepting incomplete BDFs, wherein mandatory information such as country visited, country from where coming, duration of stay abroad and number of baggage were neither mentioned in the BDF attached with the baggage receipt nor the types of goods were recorded.

Although it is mandatory for all passenger carrying goods more than threshold limit of ₹50,000 to submit baggage declaration to Customs, however the declarations furnished and assessed by the Customs was very small ranging from 0.1 to 2.38 *per cent* of the total declarations during the year 2019-20 as per the information of the Department (**Annexure 9**). In the absence of requisite information about Duty due/actually realized and the action, if any, taken by the Department in case of deficiencies, correctness of the duty imposed on the passengers could not be verified in Audit. This indicated that the Customs officials deployed at the Airport did not ensure appropriate submission of BDF by the passengers.

The Customs, Chandigarh replied that they had maintained the declarations, but no such declarations were furnished to Audit during the course of verification (July 2024). Reply from other Commissionerates has not been received (January 2025).

##### 3.8.3.2 Non-issuance and Non-uploading of Baggage declarations in eBR Module

Prior to September 2019, filing and processing of BDF was manual, and its documentation was highly irregular under the pressures of faster facilitation to international passengers and shift wise rotation of Customs staff. CBIC had launched electronic processing of declarations in Baggage Receipt Module (eBR) on 27 September 2019 enabling Customs officers to process declarations electronically

<sup>26</sup> Notification No.31/2016-Customs (NT) dated 1 March 2016

<sup>27</sup> Notification No.31/2016-Sustoms (NT) dated 1 March 2016

<sup>28</sup> i.e., Amritsar, Ahmadabad, Bhubaneswar, Delhi, Hyderabad, Lucknow, Mumbai & Gaya Airport,

and generate duty demand automatically and issue Baggage Receipt (BR). It was also intended to replace the manual mode of issuing receipts which are prone to calculation errors.

Audit noticed that in most of the Airports test checked the Department is still issuing BR manually, instead of complete switch over to eBR module. The reasons attributed are sudden influx of passengers during night hours coupled with slow processing of baggage declarations leading to long queues, while manual challans are generated faster than the eBR challans etc.

It was evident from the details of issuance of BR/eBRs during the last three-year period from 2019-20 to 2021-22 (summarised in **Annexure 10**) that:

- i) The Manual mode of issuing Baggage receipts was more common at big Airports (Mumbai, Bengaluru, and Kolkata).
- ii) According to the instructions, the manual Baggage receipts issued are required to be uploaded in eBR module subsequently. However, non-uploading of manual BRs into the eBR system varied from 100 *per cent* at Gaya International Airport to Zero *per cent* at Kochi International Airport.
- iii) Further, eBR module at SGRDJI Airport, Amritsar had not yet started (September 2023) and at IGIA, Delhi manual receipts were still issued for Baggage receipts at red channel and for issue of Detention receipts during FY 2020-21.

In reply, the Commissionerate of Customs (Airport), Mumbai and Bengaluru stated that ICES network sometimes works very slow and hangs up for which recourse was taken to use manual BRs to complete the speedy clearance of the passenger.

The Commissionerate of Customs, Amritsar admitted the non- starting of eBR module and stated (February 2024) that it had been commissioned since December 2022.

The Commissionerate of Customs, Airport, IGIA, Delhi and Ahmedabad accepted the audit observation and stated (May 2023) that direction had been issued to feed data into eBR to the extent possible.

Response from the Commissionerates is acceptance of the fact that role out/actual commissioning of the module is not being monitored at the Board level. The operational issues faced were not addressed either. Furthermore, the expenditure incurred on additional infrastructure/subsequent maintenance was not put to gainful use. Moreover, the system had not technically stabilised for catering to the desired passenger load even after three years of its introduction. This would affect passenger clearances and increase in waiting time at the airport.

**Ministry may address the technical difficulties faced in issuing BR through eBR module and monitor its effective usage.**

**3.8.3.3 Non updation of payment status in the eBR module.**

eBR module launched on 27 September 2019 had introduced (February 2021) functionality of uploading manually issued baggage receipts in the module to update the payment register. (Advisory No.: eBR/01/2021 dated 27 September 2021)

It has been noticed that in three Customs Commissionerates (Airport); Hyderabad, Delhi and Mumbai, duty levied on baggage was not shown as paid in the eBR register generated electronically for the period 2019-20 to 2021-22. The percentage of non-reflection of Baggage duty payment in three Commissionerates varies between three to 27 *per cent* as given in **Table 3.6** given below.

**Table 3.6: Payment status not updated in the EBR module**

Sl. No.	Airport Commissionerate	Financial Years	eBR (As per IT System)	Payment Status		Percentage of unpaid cases
				Paid	Not Paid	
1	Mumbai	2019-20	4,134	3,028	1,106	27
2	Delhi	to 2021-	5,237	4,621	616	12
3	Hyderabad	22	9,789	9,450	339	3
					<b>2,061</b>	

Reasons for non-payment/not paid status of baggage duty were called for by Audit. ACC, Hyderabad replied that efforts were being made to obtain the scroll numbers from the designated branch and to update the challans. Response from Mumbai and Delhi Commissionerates was awaited (January 2025).

**3.8.3.4 Low usage of digital application for advance filling of baggage details**

Customs had launched<sup>29</sup> a digital application called “ATITHI @Indian Customs” on 4 November 2019 for advance declaration of baggage to accelerate the Customs process. It was developed by the Directorate General of Systems, CBIC, DoR, MoF, to drive digital Governance in India. This application provides a platform for all visitors travelling to India globally to file their baggage, Item and Currency declarations and other citizen centric services. It was envisaged that it will reduce the time taken for Customs Declaration and will ease the arrival process at Indian Airports.

Audit called for the statistics pertaining to the period 2019-20 to 2021-22 regarding the number of passengers who declared baggage voluntarily and passengers those who declared after being intercepted. Further, Audit also sought the details of passengers who had used the digital App “ATITHI @Indian Customs” for advance baggage declaration and the actual number processed in eBR module.

<sup>29</sup> <https://pib.gov.in/newsite/PrintRelease.aspx?relid=194236>

**However, the statistical information was not provided by the Department indicating very little use of this App.**

Audit noticed that low usage of the digital Application “ATITHI @Indian Customs” may be attributed to its limitation of not having the electronic duty payment option as discussed in the succeeding paragraph. The fact about not having digital payment functionality was confirmed by the Commissionerates of Customs (Airport), Mumbai and Hyderabad, in their reply to Audit enquiry.

Accordingly, the expenditure, incurred on the commissioning and running of the digital application is not being gainfully used to derive its objectives.

The Department needs to review the application's functionality to make it more user-friendly and suitable for widespread use.

#### **3.8.3.5 eBR module not linked with Bank**

Test check of Mumbai, Bengaluru, Hyderabad and Lucknow Airport revealed that eBR module was not integrated with the designated bank for payment of duty. The passenger had to pay duty demand manually at the bank counter and to show it as evidence for release of baggage. Customs enter the payment details in eBR module manually. Further, the bank also sent a daily report quoting the EBR No/DDR no, name of the passenger and amount of duty deposited on daily basis to Admin (Tech) section of Customs Department.

Accordingly, this process indicates absence of digital payment facility for duty and non-existence of integration between the eBR module and bank for this purpose. The manual duty payment method adds up to the clearance/waiting time in the Airport Area with consequential crowding and passenger facilitation.

In reply, the Customs Department accepted the fact that there was no linking of payment of eBR module with the bank on real time basis.

Ministry may address the issue for better passenger facilitation services and image building measures, which had larger ramifications.

#### **3.8.3.6 Other deficiencies in the eBR Module**

In addition to aforementioned insufficiencies, the other shortcomings observed in the eBR Module are:

- a) The eBR Module allowed to complete the transactions even without filling the mandatory fields, marked with an asterisk (\*), such as ‘Classification of passenger (Pax)’ and ‘Duration of Stay Abroad’ in the passenger details section.
- b) The mandatory field ‘Duration of Stay Abroad’ is not linked with the section ‘Duty Details’, as a result even if the field ‘Duration of Stay Abroad’ is filled with zero (0), the system allowed the benefit of concessional rate of duty

which is only applicable to those passengers who return to India after a period of not less than six months of stay abroad.

- c) The duty free allowance (DFA) limits applicable differently to Indian passengers and foreign nationals. But system allowed DFA even though the mandatory field 'Classification of Pax' remained un-filled.
- d) The input at one section of the module was not linked sequentially to the process of other section and as a result module allowed a transaction to complete without validating/confirming the mandatory fields. This indicated inadequate in-built validations and leaving ample scope for human interference and prone to calculation errors.
- e) Passengers travelling abroad with valuables such as jewellery, cell phones, laptops, music systems etc. can declare and get export-certificates from the Customs so that same can be shown while importing on return within three years to get exemption from duties. It is observed that eBR module was not used to issue such export certificates which will be useful for assessment of duties at arrivals.

The Customs Department accepted that eBR Module is not seamlessly integrated with Custom's ICES system.

#### **3.8.3.7 Improper and insufficient eBR data furnished by the DG System**

DG Systems on Audit's request had provided the eBR data of Baggage assessment (10 *per cent* of the total data) for the period from 1 January 2019 to 9 September 2022. The Pan India eBR data furnished contains only 31 entries, which implied that during the period from 1 January 2019 to 9 September 2022, the total data in the system was only 310 entries, which seems to be incorrect. Because Audit noticed that in Mumbai Airport itself, the total baggage eBR data was 4,137 during 2019-20 to 2021-22.

Further, in eBR data, three entries had depicted high assessable values of ₹ 986 lakh (Hyderabad Air Cargo- Item Protein perfume), ₹35 lakh (Chennai Air Cargo- Item LED TVs) and ₹30 lakh (Bombay Air Cargo- Item LED TV) but the duty levied against these were shown as Nil, indicating unreliable nature of data furnished to Audit.

Audit opined that the eBR data provided to Audit was incorrect; alternatively, the reliability and verifiability of the data were found to be lacking.

**Recommendation No. 4: Mandatory use of eBR module after resolving the network and systems issues, if any, and mandatory uploading of all manual BRs in the module is imperative for data accuracy and correct reporting to higher management. To speed up Customs clearances the module needs to be integrated with digital App "ATITHI @Indian Customs" for advance declarations and with banking system for digital payment functionality. The Customs Department needs**



to review the Digital App usage and concerted efforts be made to create awareness among passengers and may extend eBR module to cover export certificates as well.

### 3.8.3.8 Integration of In-house systems at Airports towards compliance of Baggage valuation with Customs Valuation Rules 2007

#### Baggage valuation at International Airports

Customs Valuation (Determination of Value of Imported Goods) Rules, 2007 is also applicable for the Baggage Valuation in Customs at Airport/Port/Land Customs station.

#### (i) Baggage valuation at arrival areas

Audit could not examine the compliance of Customs Valuation Rules 2007 on the assessments of Baggage at arrival areas under test checked four International Airports {Bhubaneswar (24 BDs), Lucknow (20 BDs), Chennai (150 BDs) and Gaya Airport (199 BDs)} in the absence of the following essential records which were not made available:

- a) Photocopies of passport indicating stay period outside India for proper monitoring of free allowance were not available in 219 BDs (Lucknow -20 BDs, Gaya Airports -199 BDs).
- b) Invoice copy / e-search price / copy of baggage declaration mentioning value of goods for determining the transaction value and basis for granting discounts and their usage period for claiming depreciation or for determining the value of used goods was also not on record in 150 samples checked in AIA Chennai.

Commissioner (Customs), Lucknow reported (March 2023) that BDF is a declaration furnished by the passenger and most of the passengers arriving at Lucknow Airport, being illiterate or having very less education do not fill the form correctly. However, instructions have been issued (February 2023) to the officers to ensure that all BDFs provided by the passengers are complete as pointed by Audit.

Although the Department had accepted that BDFs were incomplete, however, it is the duty of Customs Officers to get the Declaration form filled. As per Customs Manual 2018, (Para 2.3-Chapter 26), in case the form is incomplete, the Customs Officer shall help to record the Oral Declaration of the passenger and thereafter countersigns/ stamps the same, after taking the passenger's signature.

Thus, Audit could not derive assurance about compliance to the Customs Baggage Valuation Rules in the absence of corroborative trail of documents (like invoice, BDF etc.) regarding correct valuation done. The valuation of the Baggage done appears to be totally at the discretion of Customs Officers.



**(ii) Baggage valuation at departure areas (Issuance of Export certificates)**

CBIC, in order to facilitate the issue of Export certificate to frequent business travellers going abroad, who commonly carry with them expensive equipment, reiterated (January 2002)<sup>30</sup> existence of a prescribed format of certificate<sup>31</sup> to enable these passengers to obtain the certificate well in advance of departure from the International Airport or Seaport.

At NSCBI Airport Kolkata, AIA Chennai and KIA Bengaluru, Audit verification of sampled Export certificates revealed that Export Certificates were issued without invoice or valuation certificates, without photograph in case of Gold Jewellery. In the absence of these documents, Audit is constrained to comment about correctness or otherwise of the assessments made which appears discretionary.

**B. Compliance issues:**

Audit from the test check of the eBR (accompanied Baggage) records noticed following compliance issues discussed in the succeeding paragraphs:

**3.8.3.9 Incorrect levy of duty on Gold and Jewellery at International Airports**

Rule 5 of the Baggage Rules, 2016 provides for Duty Free Allowances (DFA) of Jewellery up to weight of 20 grams with a value cap of ₹50,000 (40 grams with value of ₹1 lakh for lady passenger) to a passenger, residing abroad for more than one year, on his/her return to India. Gold bars/coins and ornaments other than studded Jewellery brought by passengers of Indian origin, who are returning to India after a stay of six months or more, is liable to prescribed concessional rates of duty.

Audit examination of records revealed that in total 106 cases (SGRDJIA Amritsar -23 cases, BPIA Bhubaneshwar-24 cases, CCSIA Lucknow-25 cases and NSCBIA Kolkata-34 cases), of Gold Jewellery under baggage, duty was short levied amounting to ₹71.70 lakh because the prescribed condition of stay of more than six months and duty discharge in foreign currency were not fulfilled.

The Commissionerate of Customs, Lucknow intimated recovery of ₹0.31 lakh along with interest in 25 cases.

Amritsar Airport Customs authorities intimated issue of SCN in eight cases and stated that in 15 cases levy was correct, though no evidence was furnished to Audit in support.

Further, in another 105 cases under CCSIA Lucknow excess duty of ₹3.25 lakh was noticed due to incorrect application of duty rate.

<sup>30</sup> Circular No 2/2002-Cus dated 8 January 2002

<sup>31</sup> Commissionerate of Customs (Airport), Kolkata -Public Notice No.7/2016 dated 18 January and website of Commissionerate of Customs (Air), Chennai explained the procedure to obtain export certificates.

### 3.8.3.10 Incorrect levy of duty on goods other than Gold Jewellery

Audit of Duty Receipts of Baggage revealed that clearances (liquor/perfumes etc.) in excess of DFA (₹50,000 for Indians and ₹15,000 for foreigners) had resulted in short levy of ₹1.64 lakh in 17 BDFs under three International Airports (Mumbai, Amritsar and Lucknow) (**Annexure 11**).

Customs authorities at Amritsar reported (February 2024) recovery of ₹ 0.33 lakh plus interest of ₹ 0.11 lakh

**Recommendation No.5: For monitoring and proper audit trails of Baggage goods assessments, documents like purchase invoice/e-searched price/copy of baggage declaration mentioning value of goods, copy of passport to claim duty benefits based on duration of stay abroad, may be mandatorily uploaded in the eBR module.**

### 3.8.4 Integration of Un-Accompanied Baggage (UB) passenger module

Examination of Unaccompanied Baggage module with Customs Law and procedures revealed following Systemic and Compliance deficiencies which are described in the subsequent paragraphs.

#### A. Systemic issues:

#### 3.8.4.1 Manual processing of BDF forms for clearance of Unaccompanied Baggage

Baggage Declaration Forms (BDFs) are filed online in the UB module of Customs EDI system with requisite details. BDF is to be processed electronically after undertaking examination of a specified percentage of goods. Since most of the items are used household articles, the assessment is done at fair value/depreciated value methods. Goods are released on payment of duties.

The UB clearances have been categorized under three broad categories viz. Transfer of Residence (TR- Minimum stay of two years or more), Mini TR ( MTR- from three months up to one year) and other than TR/MTR i.e. Non-Transfer of Residence (NTR). At Ahmedabad, Lucknow, and Jaipur, Audit noticed that, BDFs are still being processed manually which are prone to discretion and misuse.

#### 3.8.4.2 Incorrect allowance of multiple TR benefits to the same passenger within three years

Under Transfer of Residence (TR) category, duty free baggage up to ₹5 lakhs is allowed provided a passenger has not availed such benefit during the last three years.

Data analysis of 27,321 BDFs filed during January 2019 to March 2022 at UB Centres, JNCH-Mumbai, ACC-Delhi, AAC-Hyderabad, ICD-Sanath Nagar, Hyderabad

and ACC- Bengaluru revealed that 38 passengers<sup>32</sup> had availed TR benefits twice within three years as observed in 86 BDFs filed, resulting in excess duty free allowance involving escapement of duty of ₹41.22 lakh (**Annexure 12**).

**The module was ineffective in preventing a passenger who had previously availed TR benefit in last three years before accepting a fresh BDF under TR category. This indicates weakness in validation control.**

The Commissionerate of Customs (NS-I) JNCH, Mumbai replied (July 2023) that applicable dues (₹9.14 lakh) were already collected in 12 out of 23 passengers and recovery was underway in remaining BDFs and also agreed to the shortcomings in the BDF module in this regard. The Department further stated that to overcome this deficiency, UB Centre at JNCH, Mumbai obtains on daily basis Pan India BDFs processed through UB module from the DG systems since December 2022 and check for second BDF filed by the same passenger under TR category.

The fact remains that the UB module allows filing and availing double DFA benefit before completion of three years either in the same port or some other port in India without any validation check. Moreover, JNCH-Mumbai statement that Pan India BDFs processed are obtained from DG Systems to check filing of second BDF by the passenger is in Audit's view inclined to the discretion of assessment officer in preference to an automated system structured control. Moreover, it is not a full proof method in cases where BDFs are still being processed manually at Ahmedabad, Lucknow which remained out of DG Systems data.

The Commissionerate of Customs (Airport & ACC), Bengaluru accepted excess free allowance to one passenger due to double TR benefit and intimated recovery of ₹0.28 lakh inclusive of interest and penalty.

ACC Hyderabad while accepting the objection stated that in one case an amount of ₹2.02 lakh had been recovered.

**Audit observation was based on only 10 per cent data provided by the DG-Systems, accordingly, the Ministry may examine the audit query on the complete pan India data to examine the correctness of the assessments made.**

#### **3.8.4.3 Incorrect allowance of simultaneous Transfer of Residence (TR) and Mini Transfer of Residence (MTR) benefits for same date of arrivals and short duration arrivals.**

TR benefit could be availed once in three years and MTR benefit can be availed for stay of three to six months of stay abroad. Examination revealed the following discrepancies

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<sup>32</sup> JNCH Mumbai-23 passengers, ACC, Bengaluru-2 passengers, plus Data Analysis -13 passengers (covering ACC-Delhi, AAC-Hyderabad-02, ICD Sanath Nagar- Hyderabad)

Examination revealed that due to lack of validation check in UB module, benefits of both TR and MTR were allowed.

- i) At ICD Sanath Nagar, Hyderabad, and UB Terminal Bengaluru, 25 passengers (18 in Sanath Nagar and 7 in Bengaluru) have availed the benefit exceeding the specified value limits by filing two BDFs under TR and MTR category with time gap ranging from 0 to 351 days by jumbling up their first name, surname.
- ii) Further, in six<sup>33</sup> Commissionerates of Customs, analysis of 10 *per cent* data DG (Systems), data revealed that the 14 passengers (28 BDFs<sup>34</sup> out of 8,081 BDFs) filed two BDFs each either under TR and MTR, or MTR and Normal Transfer of Residence (NTR) category for the same date of arrival, and aggregate of two BDFs exceeded the duty-free allowance, leading to revenue loss of ₹24.18 lakh.

The Hyderabad UB centre authorities replied that Rule 3 of the Baggage Rules, 2016 unconditionally provides for availing of MTR to any bonafide passenger who comes from abroad and in cases of six passengers who had availed TR benefit twice, recovery proceedings have been completed and necessary action would be initiated in the remaining issues.

ICD Tughlakabad intimated (October 2023) recovery of ₹1.93 lakh in one BDF.

The Bengaluru UB centre authorities replied that there was no restriction on availing NTR facility more than once by a passenger on payment of duty and further stated (December 2023) that there was no other category for those passengers returning within three months of stay abroad and they have to file under NTR only and such passengers were allowed with regular allowance.

Bengaluru's reply is partially acceptable that passenger returning within three months of stay abroad have to file under NTR category. However, under NTR, automatic allowance up to ₹60,000 could not be ruled out in addition to allowance under TR category.

#### 3.8.4.4 Erroneous assessments in UB module

Unaccompanied Baggage (UB) is classifiable under single Customs Tariff Heading (CTH) 9803 and total value of personal and house hold articles exceeding duty-free limits is charged to duty (38.50 *per cent*), while the used personal effects are duty free and not counted for value limits.

Further, Notification No.27/2016-Customs dated 31 March 2016 allowed a passenger, having minimum one year of stay abroad to import goods listed under

<sup>33</sup>Bengaluru, Hyderabad, ICD-Tughlakabad, Chennai Sea, and ACC Mumbai, JNCH Mumbai,

<sup>34</sup> INNSA1(4), INBOM4(1), INBLR4(3), INWFD6(2), INHYD4(3), INSNF6(4), INTKD6(8), INMAA1(3)

Table-I<sup>35</sup> free of duty and goods covered under Table-II<sup>36</sup> on payment of concessional BCD at the rate of 15 *per cent* subject to the prescribed conditions. Under the TR category, duty is levied on net value arrived after deducting duty free allowance up to ₹ five lakhs from the aggregate value.

Audit scrutiny revealed cases of erroneous assessments in three UB Centres {Mumbai (120 BDFs), NSCBI Airport, Kolkata (4 BDFs), Chennai Air (4 BDFs)}

The irregularities noticed are short levy of duty assessment in TR cases (₹2.47 lakh), excess levy due to incorrect computation of aggregate value (₹27.03 lakh), aggregate value of articles exceeding the eligible DFA limit. Further, restricted items (Used computers/ laptops including refurbished/ re-conditioned, unbranded headphones) were cleared after payment of duties with no authorization<sup>37</sup> and system failed to raise an alert.

This indicates weakness in UB module to automatically work out the duty based on the value of goods in the baggage or flag the restricted imports.

The UB Centre JNCH, Mumbai replied (July 2023) that module generates duty once the DFA limit is crossed. However, manual intervention is needed to enter the codes given for each item to adopt correct rate of levy. The Department further stated that manual intervention sometimes leads to errors, and 20 BDFs pointed out in Audit were being verified with reference to codes.

The UB authorities, Kolkata stated that the system fails to flag out the BDF, if the aggregating exemption value is exceeded.

The UB, Chennai authorities in their reply justified clearances of laptops after levy of penalty and redemption fine, considering these as for personal use under authority of Ministry of Electronics and Information Technology (MeitY) Office memorandum No.W-47/28/2020-IPHW dated 10 November 2020 read with DGFT notification dated 17 April 2015.

The Department's reply is not tenable as the MeitY circular is for 'Clearance of Electronics and IT Goods for personal use only' hence not applicable on these baggage goods cleared in bulk. Accordingly, used laptops in bulk quantity (10/23/24 numbers) could not be presumed as for personal consumption, rather be treated as imports of goods which are restricted under FTP, consequently should have not been cleared.

In absence of validation checks in the system, passengers were allowed to claim multiple TR/NTRs through different ports without limiting it to the prescribed value

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<sup>35</sup> Video player, music system, AC, micro-oven, washing machine, fridge up to 300 litre, laptop

<sup>36</sup> Home theatre, dishwasher, TV, fridge above 300 litre, video recorder, gold or silver in any form other than ornaments.

<sup>37</sup> Para 2.31 of FTP 2015-20 import of Personal computers/ laptops including refurbished/ re-conditioned are restricted but importable against Authorisation.

limit. Thus, passenger's Self-declaration for TR/NTR benefit was not sufficient to restrict their misuse, in cases of multiple BDFs filed on the same date of arrival. This needs to be addressed. Further, manual processing of BDs at Ahmedabad, Lucknow and other ports need to be replaced with digital processing to avoid potential risk of passenger claiming benefit both through digital port and manual port.

#### 3.8.4.5 Undervaluation of unaccompanied baggage of foreigners

As per Baggage Rules, foreigners arriving in India, and not residing India, are not eligible to any concessions in baggage allowance. Further, Rule 10(2) of the Customs Valuation Rules, 2007 prescribes that the value of the imported goods shall be the value of such goods, for delivery at the time and place of importation and shall include cost of transportation, insurance etc.

At ACC, Ahmedabad, Audit observed discrepancies in allowing duty free benefit clearances of unaccompanied baggage to ineligible foreigners. The inconsistencies are: Non-inclusion of freight and insurance while computing assessable value (short levy ₹19.43 lakh in 70 BDFs), accepting declared value of goods less than the freight paid (40 BDFs), irregular duty free benefit having visas for a period not exceeding 180 days and on re-entry on employment, student, dependent, tourist etc. However, documentary evidence was not available on the record for assessments made.

In the absence of complete data in respect of these goods, Audit in some cases could not ascertain the amount of duty short levied by the Department.

#### 3.8.4.6 Absence of standard procedures for assessment of used articles in unaccompanied baggage.

For computing the assessable value of used goods as unaccompanied baggage, quarter wise depreciation rates are prescribed for each year of usage (CBIC Circular No.495/16/93-Customs dated 26 May 1993) subject to maximum of 70 per cent.

Audit scrutiny revealed that in the absence of Standard procedures, Customs formations are assessing the Un- accompanied Baggage differently. The short levy involved was ₹16.48 lakh (₹2.99+₹13.37+₹0.12) in 857(133+144+29+ 215+31) cases under five Customs formations<sup>38</sup>.

In one case, depreciation was allowed on yearly basis as against quarterly basis, or discounted prices in place of Maximum Retail Price (MRP) were considered, or considered personal goods (Smart TV, computers) as used without any declaration/evidence in the BDF and failed to collect duty at the rate of 38.50 per cent on the value of goods beyond duty free allowance.

<sup>38</sup> (1) ICD Sanath Nagar, Hyderabad, (2) UB Terminal, Chennai, (3) Commissionerate of Customs (Preventive), Lucknow, (4) UB Terminal, NSCBI Airport Kolkata (5) UB Terminal, JNCH Mumbai

ICD, Sanath Nagar authorities replied that they were in the process of verification of BDFs with regard to depreciation.

In reply, the Dy. Commissioner of Customs, ICD Sanath Nagar, Hyderabad stated that in cases where invoice of item was not available, the online prices were adopted, though at discounted price, it actually represent the transaction value as against the MRP.

The Department's reply is not acceptable as the online discounted price is the dynamic price, that changes according to promotion campaigns contingent to seasons, festivals etc. and it does not reflect the transaction value, and whereas in some other cases Customs adopted MRP based value.

The Commissionerate of Customs (Airport) and UB Terminal, Chennai stated that in the absence of invoices, the values were based on self-declarations/best judgement/market enquiries/condition of the goods.

In Mumbai Customs Zone-II (JNCH) scrutiny of assessment records in UB module did not show any prescribed details in case of electronic equipment, consumer durables goods, indicating that module was not enabled to capture such details. Moreover, values declared for transit insurance by the passengers would help in ascertaining the value of goods. However, no such record was found in the sample verified.

Thus, in the absence of invoice values, self-declared values for transit insurance, specifications of durable and electronic goods, the assessment of used goods depends mainly on personal judgements of Customs Appraisers, which may be prone for errors. Moreover, the lack of clarity on 'used personal goods' leave scope of manipulations.

Accordingly, Audit is of the view that UB Module need to be updated so as to gather all vital information and scanned documents are required for reasonable and verifiable assessments. A uniform guideline is required for valuation of used articles in baggage to avoid personal judgements and resultant under valuations.

#### **3.8.4.7 Incorrect export of goods in commercial quantities as personal baggage goods**

Audit observed that goods in significant numbers for commercial use were exported as personal baggage goods under CTH 9803 instead of as regular exports to escape the monitoring of foreign exchange realisation and levy of duty. Audit had called for the reasons for classifying exports in commercial quantity under CTH 9803; however, no reasons were furnished by the Unit.

#### **3.8.5 Integration of clearances made under Postal System with Customs module**

Manual procedures are still prevalent for Customs clearances of postal goods. Digital module for postal clearances in Customs EDI system is yet to be developed. Audit observed following deficiencies in postal clearances.



### 3.8.5.1 Deficient Customs provisions for clearance of postal imports

Postal authorities present to the proper officer a list of imported goods for the purpose of assessment of duty. The rates of duty and tariff valuation on the date of such a presentation are applicable to the goods.

Audit observed deficiencies in clearances of postal imports manually in the absence EDI Module. There is potential risk of duty escapement on goods imported/exported through post. The deficiencies noticed are discussed in the succeeding paragraphs.

### 3.8.5.2 Deficient procedures for imports presented for Customs clearances in FPOs.

Mails/Parcels/Packets imported in bags at main Customs Ports are segregated according to jurisdiction of Postal Circles and transhipped to FPOs in Postal vehicles by Postal staff. These functions are undertaken by Postal staff without any supervision by the Customs Department. Goods pertaining to a particular Circle (such as Mumbai Postal Circle<sup>39</sup>) are presented to Customs at FPO, Mumbai for X-ray scanning. The imports pertaining to this Circle but received in other Circles are also brought to this FPO for screening and Customs clearances.

Audit observed the following deficiencies in the procedures at FPOs for goods presented for Customs clearances:

i) **At FPO, Mumbai** Audit verification of adjudication files revealed that packages/ parcel containing high valued dutiable items (iPhones /Apple watches/ Drones- Assessable Value of ₹2.76 crore) were cleared by the Customs Department without levy of duty, amounting to ₹1.99 crore or had no stamp (either Red or Blue<sup>40</sup>, indicating that packages were not presented to Customs screening.

ii) **At FPO Ludhiana**, Audit observed that there was lack of proper flow of information between Customs and Postal Department and reconciliation of data.

The Customs Department at FPO Ludhiana accepted the observation and noted for future compliance.

The above incidents represent weakness in compliance mechanism which resulted in goods escaping Customs screening. This is also attributable to lack of import regulations for clearance of postal goods and absence of EDI module for Customs procedures. In this scenario Audit could not derive assurance that all imports made through Postal route are presented to Customs for screening/ assessments which may affect revenue collection.

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<sup>39</sup> Jurisdiction over the Post Offices in the Maharashtra Circle, Telangana up to Hyderabad, Hubli and Dharwad of Karnataka, Goa, Madhya Pradesh and Chhattisgarh

<sup>40</sup> Goods presented to Customs screening are segregated into possible dutiable and non-dutiable goods by stamping them in red and blue coloured ink respectively.



### 3.8.5.3 Non standardisation of import procedures and registers in FPO

Import details furnished in postal Forms, CN22 and CN23 affixed to parcels/packets were manually entered into way bills/bill sheets or examination sheets for assessment. However, audit noticed in **FPO Mumbai, Kolkata, New Delhi, Ludhiana and Bhubaneswar** that details in the forms are insufficient and did not give the information about nature of goods, values, classification of imported goods, Country of Origin and Exporter details etc. which affected the assessments. Also Registers were not properly maintained, wherein particulars required for appropriate assessment were not entered in the Register.

In the absence of EDI module and standardization of Customs procedures towards data maintenance of all dutiable and non-dutiable goods at FPOs, trail of assessments made, Audit was restrained to draw an assurance about FPOs being compliant with Customs procedures.

### 3.8.5.4 Non filing of regular BsE for import of commercial goods

Commercial goods are liable to rates of duty applicable under respective Customs tariff headings. In case particulars of IEC, foreign exchange remittance, Customs Duties and IGST paid are unavailable, credit to the importer would not be possible for Commercial imports. Accordingly, it is mandated that business entities file a regular BE at nearest jurisdictional Customs station with EDI facility for payment of duties (Para No.13 of Circular No.14/2018-Customs dated 4 June 2018).

**At FPO, Mumbai and Kolkata** verification of commercial imports revealed that the goods imported by business entities were either cleared under postal Forms CN-22/CN-23, classifying them under respective tariff headings or were cleared as personal goods instead of classifying them as per Customs Tariff and filing regular BsE on EDI.

This was in contravention of the procedures prescribed for commercial imports. This may also lead to non-monitoring of foreign exchange payments on imports by the RBI or non-availability of IGST credit to importing units.

### 3.8.5.5 Deficient Customs provisions for exports of personal goods by FPOs

Export by Post Regulations, 2018 prescribed the necessary declaration forms to be filed in exporting of commercial goods including e-commerce goods. However, it is silent about export of personal goods. Circular No.14/2018-Customs dated 4 June 2018 as amended by Circular No. 18/2018-Customs dated 13 June 2018 stipulated the procedure for e-commerce through post.

- i) Forms PBE-I (for e-commerce exports) and PBE-II (commerce exports other than e-commerce goods) have been prescribed in Regulations. No fixed formats are prescribed for data management and no profiling of exporters data and manual

risk management for examination was evolved at field formation level or at Board level.

- ii) In the case of personal exports, there were no records that these are examined or screened by the Customs and data of these exports was not available with the Customs authorities as observed in FPOs, Mumbai and Ahmedabad. Hence export of contraband goods through personal exports could not be ruled out in the absence of involvement of Customs assessing officers in case of personal exports.

#### 3.8.5.6 Incorrect levy of duty on personal imports including gift items at FPOs

Under Notification No.50/2017-Customs dated 30 June 2017, import of personal goods are chargeable to duties including IGST. Personal bona fide gifts up to the value of ₹5,000<sup>41</sup> were exempted from import duties. However, DGFT vide Notification No.35/2015-20 dated 12 December 2019 prohibited the import of gifts except on payment of full applicable duties. Accordingly, total duty at the rate of 77.28 *per cent* of the CIF values was applicable (Board vide Circular No.4/2020-Customs dated 21 January 2020).

- i. At FPOs, Mumbai, Bengaluru, Kochi and Kolkata, verification of 300 samples at each location revealed that in 58 import bills of personal goods and gifts, the duties were not levied at rate of 42.08 *per cent* and 77.28 *per cent* respectively, resulting in total short levy of ₹9.71 lakh (**Annexure 13**).
- ii. Similarly, data analysis of FPO, Mumbai for the year 2019-22 revealed that in 533 bills out of 1,15,303 bills of personal goods and gifts, duties were not levied at rate of 42.08 *per cent* and 77.28 *per cent* respectively. This resulted in total short levy of ₹14.17 lakh (**Annexure 13**).

#### 3.8.5.7 Deficient filing of Postal Bill of export and Customs declaration forms

Audit noticed that in FPOs (Bhubaneswar, Hyderabad) the bill of exports filed were not available with Customs for verification. While in FPOs, Ludhiana, Kochi, Varanasi, Kolkata, the requisite details like Tariff heading, IEC code/ certificates, destination country, details of LUT/Bond in IGST exempted cases, were missing in the prescribed forms submitted to Audit.

In FPO Varanasi, incorrect PBE were filed (CN 23 instead of CN 22) and in FPO, Delhi information regarding e-commerce export through Post for the period 2019 to 2022 and data of export incentives under MEIS scheme was not furnished.

FPO, Ludhiana admitted the facts and stated that the issue had been noted for future compliance.

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<sup>41</sup>Vide Notification No.77/2017-Customs dated 13.10.2017 which inserted Sl.No.608A in Notification 50/2017-Customs

FPO, Kochi replied (April 2023) that Seven PBsE had valid LUT, two had no valid LUTs and in remaining 4 PBEs, verification is being done.

FPO, New Delhi stated that no separate data is being maintained. In the absence of such data, Audit could not ascertain compliance to export conditions and grant of export incentives.

#### **3.8.5.8 Non adherence to the conditions for export of samples and prototypes**

As per para 9.3 and 9.4 of Customs Manual 2018, Commercial samples and prototypes of goods up to value of ₹50,000 and bonafide gift up to ₹25,000 may also be exported by Post subject to filing of a prescribed declaration<sup>42</sup>.

At FPO, Varanasi audit noticed violation of value cap of ₹50,000 by an exporter by splitting the exports to the same consignee in four consignments on the same date (31 July 2019) with a cumulative value of ₹0.87 lakh.

The FPO replied (July 2022) that as per DGFT Notification No. 22/2015-20 dated 26 July 2018 para 2.47 of FTP has been amended and value limit for exports through post is increased up to 5 lakh. In all four cases, separate invoices were issued by the exporter and goods were cleared on payment of IGST. Therefore, no violation of any provisions.

The reply of FPO is not acceptable because the value limit for Commercial samples is regulated by the provisions of the aforesaid paras of the Customs Manual. The value limit prescribed vide DGFT notification was for export of goods and not for commercial samples. The exporter had exported the samples to the same consignee and filed multiple PBEs on same date (31 July 2019) to escape the value limits.

#### **3.8.5.9 Non-functional offline reporting utility ICAN-lite in FPOs**

CBIC vide Circular No.14/2018-Customs dated 4 June 2018 introduced an offline utility, 'ICAN-lite, (ICES Compact Application for Non-EDI Sites)' designed for electronic data capture for non-EDI Sites from where exports had taken place. It is a MS Excel template to be filled up with export details as furnished in Postal Bill of Export (PBE). Subsequently, this template needs to be uploaded in nearby Customs EDI Port, so that IGST refund<sup>43</sup> claims of exporters can be processed through EDI system.

- i. Audit requisitioned the records about the ICAN-Lite from all the 12 FPOs selected for Audit and observed that ICAN-Lite utility was not functional in all these FPOs.

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<sup>42</sup> Notification No. 48/2018-Customs (N.T.) dated 4 June 2018 read with Circular No. 14/2018-Customs dated 4 June 2018

<sup>43</sup> Section 16 of IGST Act, 2017 provides two options for exporters. They either export the goods without payment of IGST by filing LUT/bond or export on payment of IGST and claim refund of the same.

- a) In FPO Delhi the data captured in template and emailed to DG Systems via system manager of the Commissionerate for uploading on ICEGATE for IGST refund was incomplete and lack information about Exporter's names, Bond/LUT, description of export items, IGST rates and applicable notification. Against GSTIN number either N/A was fed or Aadhar number/ PAN was mentioned.

Thus, incomplete template and data errors led to non-functional ICAN-Lite application and there was no evidence that total IGST amount of involved ₹110.00 lakh paid in 30,382 export consignments at FPO Delhi was refunded back to the exporters.

FPO, Delhi replied (February 2023) that rectified data was furnished to DG (System). Audit on verification still found incorrect/incomplete data in the stated rectified data.

- b) At FPO, Mumbai Zone I, claims of IGST on exports were made by exporters during FY 20. However, there was no documentary evidence that they received refunds using above Utility.

**Conclusion:** Customs clearances of Postal goods (Imports and Exports) is vulnerable to misuse owing to deficiencies in manual procedures, documentation, assessments, collection/accounting/reconciliation of Customs duties collected which also had revenue implications.

**Absence of EDI applications for Imports and non-functional commercial Exports**  
EDI application (ICAN lite) without complete integration with Customs department's online assessment system (ICES) had defeated the objective of promoting clearances through FPO and also had likelihood of delayed IGST refunds to exporters.

**Additionally, absence of commercial export reporting mechanism to RBI, involving foreign exchange realisation kept postal exports outside the purview of RBI monitoring for realization of export proceeds and subsequent recoveries in cases of non-realization affecting the management of foreign currency and outgo of export benefits (Drawbacks etc).**

**Recommendation No.6: Ministry may consider formulating Postal Import Regulations (as per amendment of 2017 to Section 84) to address deficiencies in Customs procedures for postal imports along with extension of Customs EDI System for processing of Customs business at FPOs. Export by Post Regulations, 2018 may be extended to cover the procedures for the export of personal goods. Streamlining of SOPs for imports and exports and making ICAN-Lite template functional are needed for benefit of all stakeholders.**

### Audit Objective No.3

#### 3.9. Compliance to provisions of Customs Act, Customs Tariff Act, Tariff Notifications, Rules, and other Customs procedures.

Significant audit observations of non-compliance to provisions of the Customs Act and Tariff notifications, Rules, and other Customs procedures with revenue implications of ₹5.80 crore were noticed during test check of clearances through International Courier Terminals under five Commissionerates<sup>44</sup> of Customs.

The instances noticed relates to incorrect extension of notification benefit, short levy/non-levy of import duties, incorrect levy due to mis-classification of goods, failure to include Cost Insurance and Freight in assessable value which were discussed in the succeeding paragraphs.

##### 3.9.1 Incorrect extension of Notifications benefit

Concessional rate of duties are applicable under various Customs Notifications Nos.(i) 24/2005, (ii) 05/2018 and 22/2018 which were wrongly extended to ineligible goods at (a) NCT Delhi -Ethernet Switches, (b) ICT Mumbai- “2CCD Wafers for UVB” and “Headphones and Earphones” involving duty of ₹61.32 lakh (Annexure 14).

NCT, Delhi stated (October 2023) that in two out of 52 CBEs, short levy had already been recovered. Reply was awaited in remaining 50 CBEs (January 2025).

##### 3.9.2 Short /Non levy of IGST on imports

Short/Non-levy of IGST amounting to ₹1.18 crore was noticed on imports made through NCT-Delhi, ICT-Bengaluru and FPO Ahmedabad.

##### 3.9.3 Incorrect levy due to misclassification of goods

Test check revealed incorrect levy of ₹ 2.76 crore on imports made through ICT Mumbai and NCT Delhi, due to misclassification.

The ICT Mumbai authorities intimated (July 2023) recovery of ₹55.65 lakh along with interest out of ₹2.05 crore objected in cases of ‘Inkjet Print head’ and further stated that action has been initiated for recovery of dues in other cases.

##### 3.9.4 Incorrect levy of penalty

In the case of baggage, for wrong declaration made under Section 77, a penalty not exceeding the difference between the declared value and the value thereof or five thousand rupees, whichever is the greater could be levied.

- i) Instances of deviations (non-levy/short levy/Excess levy) in levying of the penalty were noticed under ICT, Bengaluru, UB Terminal-ACC Bengaluru, FPO, Mumbai Zone-1 involving ₹62.14 lakh.

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<sup>44</sup> NCT Delhi, ICT Mumbai Zone -III, FPO Mumbai Zone-I, ACC-Bengaluru, Ahmedabad,

**Conclusion:** Though the Department has taken corrective action to recover duty in cases highlighted during test check, there is every possibility that such error of omission and commission, whether in RMS based or manual assessments, may exist in many more cases.

**Recommendation No.7:** Ministry may address the issue of short/non levy of Customs duties/ mis-classifications by strengthening the monitoring mechanism through their IT platforms for plugging weaknesses in implementation of the prescribed Customs Rules and notification procedures.

### 3.10 Other issues:

#### 3.10.1 Ambiguity regarding recovery of Customs Cost charges

Regulation 5(2) and 6(1)(o) of HCCAR, 2009 prescribes that a Custodian of Customs area shall bear the cost of the Customs officers posted on cost recovery basis (CRC) and shall make payments, unless specifically exempted by an order of the Finance Ministry. Custodians already approved on or before the date of coming into force of these regulations shall comply with the conditions of these regulations within a period of three months or such period not exceeding a period of one year as the Commissioner of Customs may allow from the date of coming into force of these Regulations.

Prior to these regulations the Board had clarified that Custodians who were notified prior to 26 June 2002 need not to pay CRC vide Circular No.27/2004-Customs dated 06 April 2004 and the same were reiterated in para 4.2 of Board's Circular No.2/2021 dated 19 January 2021. After notification of HCCAR, CBIC vide Circular No.16/2013-Customs dated 10 April 2013 had prescribed staffing norms for sanction of posts on cost recovery charges (CRC) basis for Courier Terminals/Airports, and prescribed performance norms based on which Terminals (facility) become free from CRC.

Test check revealed instances of non-payment and short payment of CRC charges by the Custodians for the period as early as 2012 and later periods as detailed in **Table 3.7**. The Department had not furnished the details of CRC charges due from the units.

**Table 3.7: Cost recovery charges due from units**

Name of the unit	Custodian	CRC pending/ short recovered since	Remarks
ACC, Ahmedabad	M/s. 'D' Export Corporation Limited	January 2012	The Custodian functioned even without renewal of licence (2014 to 2016) and since April 2021 the CRC due were not paid which resulted in loss of revenue to the exchequer.
Lucknow International Airport	M/s. 'A' Lucknow International Airport Ltd	November 2020	The volume of cargo handled was below the prescribed benchmark for waiver of CRC.

Name of the unit	Custodian	CRC pending/ short recovered since	Remarks
			The Custodian request for exemption has been turned down by the competent Authority in August 2021. However, the Custodian had again made a representation (October 2021) for exemption, decision on which is awaited. This resulted in deferment of revenue which may eventually end up in loss to the exchequer.
BPI Airport, Bhubaneswar	Airport Authority of India (AAI)	July 2015	The facility's performance was below the prescribed norms for waiver of CRC.
ICT, Mumbai	M/s. Mumbai International Airport Ltd. (MIAL)	August 2020	The Department stated (July 2023) that a Demand notice for short recovery of CRC (₹12.94 lakh) has been issued.

### 3.10.2 No clarity on recovery of Cost Recovery Charges from Foreign Post Offices

FPO Chandigarh was notified (December 2018) for Customs clearance of import and export and it was not yet operationalized despite a lapse of more than three years (as on September 2022).

On being pointed out (September 2022), the Department stated that FPO could not be made operational due to non-formulation of procedures regarding cost recovery charges. It was further stated that Policy for recovery of charges from FPO or exempting them being government organization is under formulation. Once the policy is formulated in this regard, action will be initiated.

There was no clarity on CRC of Customs staff posted at Foreign Post Offices to undertake examination, assessment and clearance of import and export of Postal goods, although FPOs are required to discharge the functions of a Custodian under HCCAR 2009. On the other hand, FPO is a Government office which functions under their own Foreign Post Manual 1980 which does not prescribe payment of such charges.

### 3.10.3 Delayed disposal of Uncleared/Unclaimed/Detained/Seized/Confiscated Goods

Chapter 2 of the Disposal Manual 2019 prescribes that the entire stock of seized/confiscated goods, in the custody of the Department, should be grouped under seven categories with different timelines prescribed for disposal of each category of goods depending upon perishable/expiring nature of goods or goods facing fast deterioration in value, or goods involving mandatory destruction or goods whose maintenance is very expensive.

It was noticed that there were delays in disposal of Uncleared/Unclaimed/Detained/Seized/Confiscated goods, The delay ranged from two to ten years which



not only affected their value but also functioning of the units because of space occupied by the uncleared goods. Audit noticed that because of space constraints at ICT, Mumbai, new Authorised Courier Operators (ACOs) could not be registered.

The shortcomings noticed are discussed in the following paragraphs:

- **International Courier Terminals (ICTs)- Paragraphs 3.10.3.1 to 3.10.3.4**
- **International Airports/ LCS - Paragraphs 3.10.4.1 to 3.10.4.3**
- **Unaccompanied Baggage Centres - Paragraph 3.10.5.1**
- **Foreign Post Offices - Paragraphs 3.10.6.1 to 3.10.6.2**

### **3.10.3.1 International Courier Terminals (ICTs) - Delayed disposals and missing consignments**

(i) From the examination of the records at five ICTs<sup>45</sup>, it was noticed that in three ICTs (Mumbai, Delhi, Bengaluru), 2,20,722 unclaimed/uncleared/seized goods were lying for the period ranging from two to ten years as on 31 March 2022, occupying the precious space (**Annexure 15**). The records suggest that the department had not initiated any penal action against the Custodians for its poor performance in this regard.

The ICT, Ahmedabad informed that there were no un-cleared goods and ICT, Chennai had not furnished the information. But Audit observed during joint inspection that some goods were lying in the area earmarked for Detained/unclaimed/confiscated /seized goods.

(ii) Further Audit noticed discrepancy of 10,946 shipments between shipments accounted (87,262 numbers) by the new Custodian (M/s. E, Mumbai) at the time of taking over and those reflected in the monthly report furnished to the Commissionerate for disposal as on 1 August 2020 (**Table 3.8**).

**Table 3.8: Pending shipments due for disposal as on 1 August 2020**

<b>Total shipments</b>	<b>one year</b>	<b>1-5 years</b>	<b>&gt;5years</b>
76,316	10,360	63,891	2,065

Audit had called for the reasons for difference of 10,946 shipments (87,262-76,316) between shipments taken over by M/s. 'E', Mumbai and numbers reflected in monthly report, their declared value and action taken for reconciliation. The information was not furnished to Audit.

(iii) Audit also observed that Authorised Courier Operators (ACOs) had alleged that 249 packages worth value of ₹2.79 crores have not been retrieved from the new Custodian i.e. M/s. 'E', Mumbai and were declared as lost in the records. Out of 249 lost packages, in 18 packages duty of ₹2.20 lakh was paid on by one of the

<sup>45</sup> ICTs (i) Mumbai, (ii) Delhi, (iii) Bengaluru, (iv) Ahmedabad and (v) Chennai



ACOs (M/s. 'F'). The remaining packages which were declared as lost since August 2020 involves value of ₹2.60 crore.

- (iv) In addition to the above loss, another 1,533 packages worth ₹2.21 crore were not retrieved and hence ACOs had to issue credit notes to the importers. Other two ACOs, FedEx and UPS had also alleged inordinate delays in retrieval of goods.

The Department stated that month wise data of shipments pending for disposal since 2020 would be reconciled with the Custodian and concerned records would be updated.

- (v) At ICT, Mumbai, 7,130 uncleared shipments having import value of ₹13.64 crore received during the period 2015 to 2019 were declared not fit for sale or have no commercial value as declared by the Approved Valuer/FSSAI/Drug Controller during March 2021 to March 2022.

**The discrepancies in handing over goods and reporting losses indicated weakness of Department's monitoring over these goods for which reliance was on figures as furnished by the Custodian. Whether inventory as per ECCS matches with the physical stock with Custodian was also not verifiable.**

The Department stated that destruction of 23,257 shipments (₹153.86 crore) was undertaken, and added that 1,242 shipments were auctioned on 6 July 2022 and revenue of ₹6.00 lakh was realised. Remaining shipments are pending for destruction/disposal.

ICT Delhi stated (February 2023) that all 23,095 shipments had been disposed of.

The fact, however, remains that delayed disposal of goods had deteriorated their value and revenue generated was miniscule compared to volume of goods auctioned. Reasons for increasing accumulation of uncleared/unclaimed goods have not been furnished (December 2023).

Some of the possible reasons attributable to the increasing trend of uncleared goods are as follows:

- a) Disputes over the Customs duties levied on Courier imports. Abnormally high duty of 77.28 *per cent* over Gift imports.
- b) Custodian failure to follow up with consignees, delay in readying lots of uncleared goods for Customs examination or pending valuation of goods from approved valuers.
- c) Customs delay in examining and issuing NoC to Custodian for disposal of uncleared goods.

### **3.10.3.2 Incorrect disposal/destruction of un-cleared cargo by the Custodian**

- i) As per Customs' circular no. 49/2018 dated 3 December 2018, the Custodian shall sent to the jurisdictional Commissioner of Customs a list of cargo lying

unclaimed/ un-cleared in the bonded area of the Customs Station for more than 30 days from the date of arrival of such cargo in the Customs Station to intimate as to whether listed goods/cargo can be taken up for disposal through public auction. The total time allowed for disposal of goods is **3.5 months after** getting clearances from various stake holders viz shipping lines, Customs Custodian and other departments like Food Safety and Standards Authority of India , Drug Controller, Bureau of Indian standards etc.

At ICT, Chennai, Audit noticed that the e-Auction of un-cleared goods was approved by the Customs Department in March 2020. However, the Custodian e-auctioned the goods after a lapse of 10 months, in January 2021, wherein reserve price fixed for auction was not furnished to the Department by the Custodian. Similarly, in another Lot, value of goods was fixed at 'Nil' for goods such as 'mobile with Earphone, 16 GB pen drive, computer parts, WPC atomizer device, LCD Monitor, USB reader, Card reader, iPhone with power supply, watch, laptop, hard drive' and these goods were destroyed.

Upon enquiry, relevant documents for 'reserve price/Nil value' recommended by the valuer were not furnished by the Custodian to Audit. In the absence of relevant documents, Audit could not assure the correctness of the recommendation made by the valuer.

- ii) At ICT, Mumbai, it was observed that auctioned un-cleared personal goods were misclassified which resulted in short collection of Customs duties amounting to ₹0.48 lakhs. Reply of the Department was awaited (January 2025).

### **3.10.3.3 Inaction on seized and confiscated goods at ICTs beyond prescribed timelines**

At ICT Bengaluru, Mumbai and NCT, New Delhi, Audit observed inordinate delays in taking action beyond prescribed timelines in cases of the seized and confiscated goods which included prohibited items such as red sanders, Drones (ICT Bengaluru), Arms and Ammunition, Currency (ICT Mumbai) and goods seized (NCT New Delhi) during the years 2010 and 2022.

On being enquired, ICT Bengaluru authorities stated that no monthly report of detained goods and tracking respective Bill of entry/ shipping bill, and other related documents has been obtained from Custodian/Authorised Couriers. The Custodian has been directed to comply.

For, ICT-Mumbai, the Department stated that seized currencies were deposited in banks in two cases and in respect of Tunisian Dinars, the international branch of SBI had not accepted this currency. However, the Department had not furnished the status of adjudication in each case and status of seized Algerian Dinar.

#### 3.10.3.4 Seized goods pending for disposal at different International Airport/LCS

As per the CBIC instructions, it was responsibility of the jurisdictional Commissioners to ensure the expeditious disposal of such goods on regular basis.

Audit observed a large pendency of baggage goods at Nine international airports<sup>46</sup> and one LCS<sup>47</sup> awaiting action beyond the prescribed timelines since their seizure from **1990 to 2022**. The delays range from six months to 32 years. The goods pending for disposals were foreign currency, Gold & silver, jewellery, cigarettes, Liquor, medicines, electronic goods etc.

Despite instructions of the CBIC, huge pendency of goods lying for disposal led to blockage of revenue due/loss which indicated the absence of proper monitoring and control mechanism. The particulars and pendency of goods are discussed in succeeding paragraphs.

#### 3.10.3.5 Delay in deposit of seized goods into warehouse

Para 3.1.1 & 3.1.3 of Customs Disposal Manual, 2019 describe the role of the Seizing Unit and process/timeline of depositing of seized goods in warehouse. It prescribes that the seized goods shall be deposited into warehouse within 24 hours of the detention/seizure of the goods. Further Section 110 (1B) of the Customs Act provides that the seizing officer shall prepare an inventory of the seized goods and shall make an application to a Magistrate for the purpose of certifying the correctness of the inventory so prepared.

- i) Audit noticed instances of unreasonable delays such as non-preparation of inventory and delay in depositing of seized goods in warehouses (2019 to 22) in 218 cases under CCSIA-Lucknow (75+127 cases), SGRDJIA, Amritsar (16 cases). The goods seized-inter-alia included gold and items thereof- 1,10.85 Kg. and iPhones, Arms ammunition, laptops and others items. The delays ranges from 5 to 528 days.
- ii) Audit Scrutiny of stock verification Report (July 2022) of nine warehouse under control of Commissionerate of Customs, CSMIA-Mumbai revealed discrepancies in Un-cleared/Unclaimed/seized baggage/ goods (10,047 cases) which are critical to safety/security of the deposited goods, e.g. baggage seals were broken/damaged (1,448 cases), date of deposit in warehouse was not available (3,829 baggage) or unidentified baggage (73 cases).
- iii) In DS-I and DS-V warehouses (CSMIA-Mumbai), the number of packages/baggage as per stock register and as per physical verification differ indicating improper maintenance of warehouse stock register. Baggage

<sup>46</sup> International Airports – Ahmedabad, Bengaluru, Bhubaneswar, Chennai, Hyderabad, Kolkata, Lucknow, Mumbai, New Delhi,

<sup>47</sup> LCS Petrapole, West Bengal

Pendency ranges from 6 *per cent* to 100 *per cent* of the warehoused baggages awaiting clearances for more than six months.

- iv) lack of Coordination between Customs and Central Warehousing Corporation in Delhi resulted in non-disposal of baggage/goods pending since 2019-20. As per agreement between IGI Airport, New Delhi and CWC, the goods not cleared within 30 days by the Airlines, or concerned passengers shall be liable to be removed by the Customs to their Disposal Units and CWC shall provide the necessary details to Customs as and when such goods become ripe for disposal. However, there were detained/ mishandled/ valuable goods lying with the CWC pertaining to the period from 2019-20 to 2021-22. It shows that neither the CWC nor the Customs Department, New Delhi initiated action for clearance/disposal of goods even after a lapse of 64 months (upto July 2024).

Customs authorities at Lucknow attributed the delay in deposit of seized gold due to logistic problems such as co-ordination with Superintendent (valuables) of Customs godown, availability of vehicle, security issue and requirement of doing this task on working days only. Department further added that in arrest cases, it takes 48 hours to complete the proceedings of the case.

The SGRDJIA, Amritsar authorities accepted that during last two/three years there was no/minimal disposal due to the situation created by COVID-19. However, whenever the disposal has been carried out, the same has been done after proper authentication. However, the observation of the audit will be conveyed to the staff posted that instructions are scrupulously followed in future.

Reply from the other units has not been received (January 2025).

From the documents made available to available to Audit, it emerges that there was lack of co-ordination between agencies and the monitoring was inadequate for appropriate management of Un-cleared/ Unclaimed/ seized/ baggage goods. This resulted in blockage of Government revenue in addition to avoidable occupancy of storage space of CWC by the Customs which may affect fast clearances.

#### **3.10.3.6 Quarterly/Half Yearly Inspection of valuables, seized articles not conducted at International Airports**

Paragraph 3.14 of the Customs Disposal Manual 2019 prescribes a quarterly Inspection of goods lying in the strong room having seized/confiscated valuables; and verification of stock of all detained packages by the Committee headed by the in-charge of valuables godown. Proceedings of inspection shall be recorded and kept in the file. The Quarterly Inspections shall be video-graphed, and a soft copy of such video recording shall be kept in a sealed envelope with the Systems Unit.

Further, every six months, a Proper officer shall conduct a complete stock-taking of all the packages containing 'Articles other than valuables' (Para 4.2.1 of the Disposal Manual). The officers verifying the stock shall physically verify the stock with

reference to Inventories and Stock Registers, and with reference to Registers of 'Handing-over and Taking-over charge' (Para.4.2.2 of Disposal Manual).

Audit observed from the records furnished that the mandated stock taking/ physical verification/video recording was not carried out during the period April 2019 to March 2022 by CSMIA-Mumbai, Customs (Preventive) Commissionerate-Bhubaneswar, Lucknow International Airport, IGI Airport-Delhi and NSCB Airport-Kolkata. However, KIA Airport- Bengaluru and BPIA Bhubaneswar carried out quarterly inspection of valuables in the Godown.

All these deficiencies suggest lack of proper internal control and monitoring. Inordinate delays and inactions are evident at each stage for all types of goods-Detained/seized/ unclaimed baggage. It only leads to deterioration in value of goods and unwarranted occupation of precious space at International Airports.

### **3.10.4 Unaccompanied Baggage Centres**

#### **3.10.4.1 Unclaimed/uncleared Baggage at UB Centres**

- i) At UB Terminal-JNCH, Mumbai, Audit observed that unclaimed baggage (113 containers) pertaining to the period 2010 to 2022 were lying undisposed with the Custodian.
- ii) At ICD-Sanathnagar, Hyderabad six un-cleared UB were not figured in the list of un-cleared UBs provided by ICD-Sanathnagar to Audit.

The UB centre, Mumbai stated (July 2023) that timely disposal of unclaimed containers depends on the Custodian and the Department had insisted upon the Custodian for making necessary arrangements in this regard on priority. Reply of the Disposal Section, (JNCH, Mumbai) had not been received.

At ICD-Sanathnagar authorities replied that four UBs were cleared manually and two UBs (dated 04 July and 07 July 2020) were un-cleared.

Despite CBIC directions and instructions<sup>48</sup> that there would be a formal mechanism for quarterly interaction between the Custodians and Customs to review the pendency status, the un-cleared UBs lying since 2010 revealed deficiency in working of the mechanism. Reply of the department has not been received (January 2025).

### **3.10.5 Foreign Post Offices- Disposal of detained/uncleared/seized goods**

#### **3.10.5.1 Inordinate delays in handing over goods to disposal section by FPO**

In terms of Section 110 of the Customs Act, Customs Authorities can detain the Postal mails/parcels/packets, if the goods are found liable to confiscation or require further verification of documents. A notice cum SCN is issued to the importer for required compliance. The parcels containing prohibited goods are

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<sup>48</sup> Circular No.11/2006-Customs, dated 16.02.2006 and Instruction F.No.450/97/2010-Customs IV, dated 22.07.2010.

detained and dealt with as per the law. Goods assessed to duty and handed over to Posts for delivery are sometimes returned to the FPOs undelivered for various reasons. All these detained/undelivered goods are stored in the FPOs for disposal. Though FPO is the Custodian of such goods under HCCAR, 2009 and responsible to keep account of all these goods, yet as per Foreign Post Manual (1980), Customs department is responsible for disposal of goods detained by the Customs or dutiable goods returned undelivered to the FPOs.

Hence Customs had to examine and inventorise such goods and adjudicate the call cum SCNs within the time limits specified in the Board's Circular No.03/2007-Customs dated 10 January 2007 and handover to Disposal Section of Customs for ultimate disposal of such goods. FPO is the mere Custodian until such handover to Disposal section.

In Nine FPOs<sup>49</sup>, Audit noticed that as on 31<sup>st</sup> March 2022, total 95,513 detained/seized/ prohibited/restricted goods such as drugs, drones, cigarettes, insects (spiders), explicit goods, Arms, antique pieces, foreign currencies and other unclaimed goods were lying undisposed pertaining to the years 2005 to 2022. FPO, Chennai (Air) did not furnish the information.

In the cases of seized drones/UAVs accounting was not maintained properly at FPOs, Mumbai and Bengaluru and hence could not provide total pendency in this regard. In the case of FPO, Kolkata there was a discrepancy in handing over to Disposal Section. Delayed action on these electronic items only results in deterioration and ultimate destruction.

The reasons for pendency for so long were either these goods not handed over by the FPO to the Disposal wing (Customs) or in some cases, pending for want of action by the Customs department. The issue had become persistent, resultantly the Department in some cases had to destroy undisposed goods which did not yield any revenue.

FPO, Mumbai authorities stated (January 2023) that cases in respect of 5,742 packets pertaining to the period 2018 to 2022 have been adjudicated and being sent for disposal. However, the reply is silent about un-cleared goods lying since 2005.

FPO-Bengaluru stated that the undisposed imported insects (spiders) were handed over to Indian Institute of Science and that Ganja seeds could be imported on production of Plant quarantine certificate. However, the reply was silent about issue of notices (SCN) or their adjudication in cases of prohibited and restricted goods.

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<sup>49</sup> FPOs- Mumbai (Zone-I), Delhi, Kolkata, Bengaluru, Ahmedabad, Bhubaneswar, Jaipur, Kochi

With regard to abandoned articles, FPO-Bengaluru intimated that unclaimed, uncleared or abandoned has to be cleared by the FPO.

FPO, Bhubaneshwar attributed the delay to the archaeological Survey of India.

FPO, Ahmedabad stated that unclaimed import/export parcel are dealt with in accordance with Post Office Guide Part I (Rules and Regulations) relating to the Inland Post.

The reply is not acceptable as the goods not cleared by the Customs were pending for compliance to the Customs notices. Further, Foreign Post Manual casts responsibility on Customs for disposal of all goods assessed to duty irrespective of its abandoned/unclaimed/ uncleared nature of goods. Accordingly, as per provisions the Customs department is responsible for disposal of those goods.

Reply in respect of remaining FPOs was awaited (January 2025).

### **3.10.5.2 No physical verification/ accounting of un-cleared goods at FPOs**

Audit noticed that at test checked FPOs Jaipur, Bengaluru and New Delhi the physical verification or reconciliation of inventory of detained/unclaimed/uncleared goods have not been carried out by the Department during the period of 2019-20 to 2021-22. Resultantly, there were discrepancies of 906 parcels at FPO, Jaipur between the numbers mentioned in the D-Call Register<sup>50</sup> and the list of detained/ unclaimed/uncleared parcels maintained by FPO, Jaipur.

The FPO, Jaipur authorities attributed the difference due to non-entry of parcels released/returned to sender (RTS) in their own registers. But Department's reply was silent on reconciliation of physical inventory.

FPO Delhi replied (February 2023) that an officer was appointed for conducting the stock taking of the packages containing valuables in FPO and it would be completed shortly.

As physical verification of store/stock/Inventory was not being conducted, there could be possibility of more undisposed goods pertaining to the years previous to Audit period.

**Conclusion: Inordinate delays attributable to the Custodians as well as to the Departmental authorities in disposal of uncleared/unclaimed goods/seized and confiscated goods, led to deterioration in value of consignments and consequential loss of revenue.**

**Further manual inventory management or absence of integrated digital module for inventory, coupled with irregular physical verifications resulted in poor**

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<sup>50</sup> After receiving the imported parcels in FPO, wherever required (improper declared value, restricted/prohibited or suspected items) for further clarification, a D-call letter should be issued to the receiver for further clarification. An entry of the same is made in the respective D-call register maintained by the Customs Department and Postal authorities.



monitoring mechanism and avoidable pendency of goods with risk of pilferages.

**Recommendation No.8: A separate digital module integrated with the Customs EDI system, covering entire gamut of accounting, monitoring of unclaimed/uncleared/seized/ confiscated goods is required for effective monitoring and resolving this perennial problem.**

**Recommendation No.9: Specific timelines are required for faster actions on unclaimed/uncleared goods where department itself is the Custodian. Increase in pendency of personal gifts at FPOs and ICTs (possibly due to increase in import duties) needs to be reviewed to ease the stagnations.**

#### **Audit Objective No.4**

##### **3.11 Other miscellaneous issues:**

The examination of co-ordination mechanism between Customs department with other agencies/ departments and its efficacy for timely clearances/disposal of uncleared goods beside reconciliation of Customs duty collected revealed inadequate co-ordination which led to various inconsistencies. The issues noticed are discussed in the subsequent paragraphs.

##### **3.11.1 Non reconciliation of Customs Duty collected by FPOs**

Unlike regular imports where goods are cleared on payment of import duties, Postal goods are assessed to duty and handed over to Postal personnel by generating a waybill. As per the CBIC Customs Manual<sup>51</sup> provisions, the Duties as assessed by the Customs Appraiser in the Bill shall be recovered by the Post Office from the addressees at the time of delivery of the goods. The credit for the total amount of duty certified by the Customs Appraiser is given by the Post Office to the Customs Department in accordance with the procedure settled down between the two Departments.

Audit had called for the revenue credited by the Postal Department as well as its reconciliation and authentication from the Authorities of Posts and Customs Department from all 12<sup>52</sup> selected FPOs. However, no such records were made available to Audit by the FPOs. The duty was stated to have been credited to the accounting Head of Customs centrally by Postal Accounts Office at Nagpur after adjusting the duty related to the goods not delivered or returned.

The details of duty assessed vis-a-vis the duty deposited for that period, net of undelivered/returned goods, and whether such duty was duly accounted for in respective Heads of accounts viz Customs Duties, Social Welfare Surcharge, IGST, and whether there was any reconciliation mechanism between the two

<sup>51</sup> Chapter 17 , Sub-para 8.1 (k) (Procedure in case of Postal Imports) of CBIC's Customs Manual

<sup>52</sup> Ahmedabad, Jaipur(Jodhpur), Bengaluru, Ludhiana, Chennai, Kochi, Delhi, Hyderabad, Bhuvneshwar, Kolkata, Lucknow, Mumbai



Departments or confirmation of revenue figures was not available. Accordingly, it was difficult for Audit to draw an assurance about efficiency in revenue collections in the absence of relevant records.

FPO Ahmedabad replied (December 2023) that reconciliation of duty collected would be done henceforth. Reply from other FPOs was awaited (January 2025).

### **3.11.2 Non-realization of foreign exchange proceeds on Postal exports**

Para 2.54 of Foreign Trade Policy (FTP) 2015-20 stipulates that, if an exporter fails to realize export proceeds within time specified by RBI, he shall be liable to return all benefits/incentives availed against such exports.

At FPO-NCH Mumbai, verification of sample export bills revealed that high value exports were mostly of jewellery. The goods were exported under PBE-II forms (non-e-commerce exports) attaching invoices, valuation certificate, Exchange Declaration Form (EDF) and export under LUT procedures. During 2019 to 2022, there was a total export of commerce goods worth ₹376.51 crore. However, there was no mechanism in Postal exports to ascertain that export proceeds were realized and in case of non-realization of proceeds/return of exports, the IGST not paid at the time of export was recovered along with interest.

Accordingly, absence of mechanism to report exports to RBI involving foreign exchange realisation kept postal exports outside the purview of RBI monitoring for realization of export proceeds and subsequent recoveries in cases of non-realization, affecting the management of foreign currency. Additionally, export incentives availed if any, could not be recovered. This was communicated (August 2022) to the Department, their reply was awaited (January 2025).

### **3.11.3 Lack of inter departmental arrangement in keeping records and flow of information**

Para 6.1 of Chapter 20 of the Customs Manual, prescribed that for disposal of unclaimed/un-cleared cargo, quarterly meeting be held between the Custodians and Customs to review the pendency of un-cleared cargo and to reconcile/update the status of pending consignments with the Custodian.

Audit requested FPO, New Delhi under NCT, Delhi to provide the details (along with related records) regarding periodical meetings held with Custodians and other Government agencies like wise Central Licensing Authority (CLA), DG system, Central Revenues Control Laboratory (CRCL), Narcotic Drugs and Psychotropic Substances (NDPS), Wildlife Department etc. during the period 2019-20 to 2021-22 for maintaining inter departmental co-ordination.

Customs authorities, NCT Delhi accepted the absence of any such inter departmental coordination and FPO Delhi also agreed to the requirement of such mechanism.

**Conclusion:** Inadequate co-ordination between Customs and the user departments (Custodians, FPOs) resulted in non-reconciliation of duty collected, non-monitoring of foreign proceeds realised, blockage of Government revenue in addition to discrepancies in pendency of uncleared goods beside occupancy of precious storage space by the Customs which may affect faster clearances.

**Recommendation No. 10:** Ministry may review the extant co-ordination mechanism among the departments and put in place a robust interactive mechanism monitored by the Senior Management for astute decisions.

#### **Audit Objective No.5**

##### **3.12 Internal Control Mechanism**

Soundness of internal control mechanism in any entity is ensured through effective use of tools like periodical reporting, auditing, proper documentation and records keeping, flow of information and data up the line and necessary instructions down the line etc. and overall function of the entity in the best interest of revenue on one hand and smooth delivery of services to the stakeholders.

Few internal Control measures includes compliance to internal orders/guidelines, MPRs/ QPRs/Half yearly Report/MIS reports, Registers and Internal Audit and others.

##### **3.12.1 Non monitoring of SCNs through MTR/MPRs/DIGIT module<sup>53</sup> for disposal of uncleared goods**

At FPO Mumbai Zone-I, Audit observed from the Monthly Technical Report (MTR) of March 2023 that there were only 10 SCNs issued and adjudicated during the last three years period 2019 to 2022. However, Customs officials had issued 12,631 call cum SCNs during the same period as per the excel sheets records maintained. These call cum SCNs were issued to get some other clarifications/compliance from the importers. Further action by way of adjudication or release of goods after compliance to notice was not specified. All these actions were not forming part of MTRs and also not being monitored by higher management through any other periodical reports. Accordingly, Audit could not ascertain whether the goods pending at FPO matches with the pending call cum SCNs.

Audit observed that procedural system was not followed for issuing notices, despite CBIC Instruction<sup>54</sup> which mandated issue of all SCNs and their adjudications through DIGIT module, to serve as a single source of all Customs offences for investigating agencies. If no compliance is received or compliance is not satisfactory from importers, the goods remain detained in the FPOs until the goods are inventorised

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<sup>53</sup> DIGIT is India's National Customs Offence Database and serves as the official repository of all cases involving violation of the Customs Act, 1962 and other Acts being enforced by CBIC.

<sup>54</sup> CBEC Instruction No. 5/2018-Customs dated 28.03.2018;File No. 391/40/2017-Customs(AS)

and handed over to Disposal sections. This has become a main reason for a pendency at FPOs.

### **3.12.2 Non-adherence to SCNs and adjudication timelines for Search/seizure cases**

In terms of Section 110 of the Customs Act, 1962, the person from whom the goods are seized is issued SCN, usually within six months, otherwise the goods shall be returned to the person from whose possession they were seized. Section 111 of the Act provides for confiscation of improperly imported goods.

As per Circular No.3/2007-Customs dated 10 January 2007, cases falling within the competence of AC/DC are to be adjudicated within six months of the date of service of the SCN and within three months by Gazetted officers below AC/DC. Audit noticed the lapses discussed in the succeeding paragraphs, which may weaken the case of the Department.

#### **A. Deviations at FPOs**

i) At FPOs, Ahmedabad, Jaipur and Bengaluru, delays ranging between 71 days to 624 days beyond prescribed six months' time in issuance of 48 SCNs out of 167 SCNs were observed.

Further at FPO, Bengaluru, 46 SCNs were issued at Superintendent/Appraiser level without taking approval of DC/AC of Customs. At FPOs Jaipur and Kolkata, while adjudicating the cases, there was a delay of 176 days to 1,263 days in respect of 30 Orders-In-Original (OIOs).

At FPO, Bengaluru, no record of seizure of goods was found before confiscation as per 50 OIOs test checked.

In reply, Bengaluru Customs, accepted that no seizure details in the form of Seizure Register had been maintained and the same would be maintained in the future.

#### **B. Deviations at ICTs:**

i) At ICTs Bengaluru, two SCNs were issued after expiry of two years period from the release of goods and in another 85 OIOs there were no records of seizure of goods before confiscation.

ii) At ICTs, Mumbai (66 cases), Bengaluru (26 cases), Kochi (2 cases) and Delhi (7 cases) there was a delay of 32 days to 2,429 days in adjudicating 94 cases. At ICTs, Kochi and Delhi, six cases were still pending at JC/ADC levels for more than one year.

#### **C. Deviations at Airports:**

i) At six International Airports (Mumbai-21 cases, Ahmedabad-07 cases, Bhubaneswar-01 case, Kochi-39 cases, Kolkata-01 case and Delhi-625 cases), Audit

observed that 694 SCNs were pending for more than one year from the expiry of prescribed period for adjudication.

ii) At six International Airports (Mumbai, Ahmedabad, Bengaluru, Bhubaneswar, Lucknow and Kolkata) and one Land Customs station (Petrapole, Kolkata); Audit observed that 87 adjudication orders were issued with delays of 21 days to 733 days from the end of prescribed time limits. At SVPIA, Ahmedabad, in two cases OIOs were issued after lapse of 113 days and 175 days from the date of last Personal Hearing (PH) and in other six cases more than three PHs were held though no one appeared, and cases decided ex-parte.

**D. Deviations at UB Centres:**

At UB Unit, ACC, Bengaluru, in four cases, No Objection certificates (NOCs) were given without adjudication in seized drone cases. In another, 18 seized drone cases, NOCs were issued after a lapse of 335 days to 2,536 days and no NOCs were issued in 12 drone cases even after lapse of up to 1,167 days.

ACC Bengaluru while accepting the facts stated that disposal process is still under progress.

The Customs units at Airports, Courier and FPOs require time bound resolution mechanism unless the matter involve further investigation as disputes involved personal goods of passengers, who are unaware of Customs procedures. Monitoring and reporting mechanisms need to be strengthened to ensure that timely and proper action as per the Act is taken by the field formations in issuing and adjudicating SCNs.

**3.12.3 Monitoring mechanism through periodical reporting**

Board had prescribed (October 2014<sup>55</sup>) Monthly Performance Reports (MPRs) to collate all technical information from different functional areas such as Revenue, Evasion, Audit, Adjudication, Litigation, and Arrears. Information on pendency for disposal of seized/confiscated and ripe for disposal goods was to be furnished in prescribed formats. The information collated should be reliable, accurate and up to date for informed decision making and performance evaluation at senior level officers.

Audit observed the following deficiencies in MPRs:

**A. Deficiencies in ICTs.**

i) At ICT Mumbai, in the Custodian's monthly report on pendency of uncleared/unclaimed goods, the closing value in the month of February 2021 was declared at ₹612 crore, whereas the opening value in the month of March 2021,

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<sup>55</sup> CBIC letter no. F.No.296/127/2013-CX-9, dated 10 October 2014

was booked at ₹481 crore which showed a huge unexplainable difference of ₹131 crore.

Similarly, for the month of August 2020, 25,961 packages were received with declared value of ₹410.11 crore, however, in subsequent months the declared values were considerably low, despite a substantial increase in number of packages. In March 2022, 62,243 packages were received, but their value declared was only ₹32.04 crore. Thus, the report on declared values was inconsistent and unreliable.

- ii) At ICT Kolkata, no MPR was maintained in respect of courier terminals as confirmed by the Department for import and export section.

Reply from the Customs Department or Custodians have not been received (January 2025).

**B. Deficiencies at International Airports:**

- i) At CSMIA, Mumbai, MPR for the month of March 2022 reported Opening Balance of 80 Packages with a value of ₹1.10 lakh by APD & Warehouse (Admin) authority and whereas the Admin-Tech wing which collected the figures from APD disposal section, was disclosing the Opening Balance of 230 Packages with a value of (- ) ₹5.82 lakh with value difference of ₹6.92 lakh. Additionally, following discrepancies were noticed at CSMIA, Mumbai in the information/data/statistics related to Baggage furnished to Audit:

- a) Number of spot adjudication cases reported during the year 2021-22 were stated as 58 out of 29 cases of detentions during the year. Adjudication could not be more than detentions.

- b) The information furnished about baggage assessed was not tallying with the data under eBR module.

- ii) At BPIA, Bhubaneswar, Audit observed the following discrepancies:

- a) As per Cash book aggregate cash for the period 2019 to 2022, was ₹47.76 lakh and whereas MPR was showing the cash of ₹45.51 lakh only.

- b) Further as per SCN register, total 35 cases were adjudicated during 2019 - 21 and whereas MPR had shown only five adjudicated cases. Thus, there was a mismatch of 30 cases.

- c) Further, an amount of ₹2.60 lakh (penalty) and ₹0.51 lakh (unclaimed amount) deposited under Major Head 0037 were not taken into Cash Book and MPR of the Customs Commissionerate.

The Department accepted the discrepancy and stated that it would be reconciled and communicated to Audit.

- iii) At RGIA, Hyderabad, Tax Arrears Report for the month of July 2022, revealed that in 11 out of 50 adjudicated cases, the recoverable arrears amounting to ₹9.31 lakh were not taken into the Tax arrears report.

The Department stated that they had taken into account Tax Arrears, in the month of October 2022 and recovery was pending.

- iv) At NSCB Kolkata, CCSIA Lucknow, Petrapole and Ghosladanga Land Customs Station, West Bengal various centralised Customs (CUS) reports are prepared for transmission of information and performance of Customs Department to the Board, but nothing is reported in respect of number of baggage receipt issued with revenue figure, Number of detention receipt issued/closed/ pending, number of currency declaration issued and position of goods pending disposal.

### C. Deficiencies at FPO:

- i) In all 12 selected FPOs (Ahmedabad, Jaipur, Bengaluru, Ludhiana, Chennai, Kochi, Delhi, Hyderabad, Bhubaneswar, Kolkata, Lucknow, Mumbai), Audit observed that no MPR regarding revenue collections and detained/seized/ confiscated/ripe for disposal reports was being sent to Senior management.

FPO, Jaipur authorities stated that goods were only assessed in FPOs, actual collection and deposit was done by the Postal Department, and hence, MPR of revenue was not followed. Regarding MPR on pendency in case of unclaimed/seized/ confiscated goods in FPOs, they stated that it was not prescribed for FPOs.

FPO Delhi replied (February 2023) that they started reporting data related to Revenue collection, recovery, adjudication and disposal of goods in the MPR as prescribed.

FPO Ludhiana, authorities admitted the audit observation and assured to maintain proper records and MPR/MTR in future.

- ii) At FPO Bengaluru MPR revealed the incorrect figure of opening balance in MPR 2021-22, mismatch of items shown as “ripe for disposal”<sup>56</sup> and items transferred to confiscation/ripe goods, misreporting of disposal of non-revenue yielding goods under “ripe for disposal”, drugs were shown as not ripe for disposal, though value, date of detention and details of drugs were not mentioned in the report DOL-CUS 3 statement<sup>57</sup>.

The Department accepted the mistake and stated that the same was due to clerical error and the reports had been sent to the technical section without the approval of AC/DC. Further, it was stated that details of the items were not available due to non-maintenance of seizure register.

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<sup>56</sup> Ripe for disposal – Cases for which adjudication has been completed and no appeal pending against the adjudication orders.

<sup>57</sup> Dol-Cus 3- Disposal of non-revenue yielding goods.

- iii) At FPO, Mumbai MPR on adjudication furnished only the details of adjudications made at AC/DC and higher levels. The call cum SCNs issued at lower-level officers for detention/seizure or confiscation of goods and their adjudications were not reported in MPR, though 12,631 Call cum SCNs were issued during FY 2019-20 to 2021-22.

**D. Deficiency noticed at UB Terminals:**

At UB Terminals under Kolkata Customs Commissionerate, no MPR/MTR is maintained in respect of unaccompanied baggage as confirmed by the Department.

Thus, the correctness and sufficiency of reports was found wanting at many field formations. The basic reports on baggage assessed, revenue and its reconciled figures with reference to EDI systems, goods unclaimed/seized/confiscated or released including that of preliminary notices and spot adjudications/action thereon need to be reported upon in periodical MTRs. The inadequate and insufficient reports fails to provide overall performance of the unit to the higher management to take appropriate measures and exercise effective control.

**3.12.4 Monitoring through maintenance of proper and updated records and registers**

Maintenance of complete and updated records not only enables the Department in effective discharge its functions, but also help them developing a sound reporting system, which further help in exercising effective control and take appropriate measures to ensure effectiveness of the functions of the entity in the best interest of revenue. Audit observed the following deficiencies:

**A. Deficiencies observed at FPOs**

- i) At FPO, Kolkata the Call Memo Registers such as L/M Import Register, L/M Export Register, Speed Import Register, Speed Export Register and CR Import Register were maintained reflecting only the issuance of Call Memos and does not show the details of adjudication of such call memos subsequently. The SCN Issue Register & Adjudication/O-I-O Register has no reference to Call Memo/SCN No & Date and the O-I-O No is recorded without date. Many adjudication order numbers were found missing in the register, such as, 408 orders were found missing between adjudication order no 1883 to 2982, but no noting/remarks to this effect was recorded in the register.
- ii) At FPO, Mumbai, 12,631 Call cum SCNs were maintained in excel sheets for detained goods, but their further progress on adjudication or release of goods was absent in excel sheets.



**B. Deficiencies noticed at the Airports:**

(i) Goods temporarily imported into India for specified purposes under ATA carnet<sup>58</sup> procedures are exempted<sup>59</sup> from Customs duty provided they are exported within a period of six months from the date of importation extendable upto further period of six months by the Commissioner of Customs on reasonable grounds.

At CSMIA, Mumbai Scrutiny of ATA Carnet Registers (Importation of Carnet) for the period April 2019 to March 2022, revealed that in 29 carnets the importers had not produced the proof of re-export, nor the Department had recovered the duty of ₹101.06 lakhs involved in such goods along with interest **(Annexure 16)**.

Customs Authorities, CSMIA, Mumbai in their reply stated that in respect of these 29 carnets correspondence had been made with FICCI demanding payment of duty. Further reply was awaited (January 2025).

(ii) At IGI Airport, New Delhi, ATA carnet register was incomplete and does not contain the import/re-export details. The basic details such as the date of import, description of goods and their values and countersignature of concerned AC/DC were not available. Further, no demand for duty payment was raised by department in case the goods were not re-exported within prescribed time. In the absence of essential details, Audit could not examine the imports and their subsequent exports under ATA carnet rules.

Airport Commissionerate, New Delhi stated that the audit objection would be complied in future.

(iii) At SVPIA Ahmedabad, SGRDJIA Amritsar, CCSIA, Lucknow, GIA, Gaya, AIA Chennai, IGIA New Delhi, BPIA Bhubaneswar and two land Customs stations at Ghojadanga and Petrapole in West Bengal, several registers were improperly maintained and some other registers were not maintained.

(iv) At KIA Airport Bengaluru, gold ring weighing 30.920 grams detained on 18 October 2014 is still pending for disposal even after lapse of more than 10 years.

Further, the adjudication powers were exercised in contravention to the value limit prescribed for the cases under Section 5(2) of the Customs Act, 1962.

The Customs department accepting the observations stated that officers have been sensitized to strictly adhere to the procedures for disposal laid down in CBIC instructions of December 2021 and further stated that Officers have been instructed to strictly adhere to the value limit of adjudication.

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<sup>58</sup> The ATA Carnet is an international Customs document that permits duty-free and tax-free temporary import of goods up to one year. It contains pre-prepared unified Customs declaration forms to be used at each Customs border offices and serves as a guarantee to Customs duties and taxes.

<sup>59</sup> Notification No. 157/90-Customs, dated 28.3.1990 as amended.



(v) the registers for Offence, Godown (Valuables), Godown (Non-valuables), Seizure, Order-in-Original, Show Cause Notice etc. are being not maintained properly.

(vi) At CCSIA Lucknow (02 cases) and JIA Jaipur (08 cases), the same baggage receipt numbers were issued to more than one passenger reflecting poor internal control.

(vii) At NSCBIA, Kolkata the manual report MTR- CUS-1 had shown 20 cases pending for adjudication as on 31 March 2022, whereas the report generated in DIGIT showed 46 pending cases as on the date.

The NSCBIA, Kolkata, authorities stated (July 2022) that cases adjudicated by 31 March 2022 were not yet uploaded in the DIGIT. Still, the discrepancies of six (06) remained un-clarified in the said two sets of reports.

(viii) At Land Customs Station, Petrapole, West Bengal no database is being prepared for offence cases through DIGIT. On being enquired, the Department (September 2022) informed that no officer of the unit has been mapped in the DIGIT System yet.

### **3.12.5 Non-Classification/Mis-Classification of Customs Revenue as per Government Head of Account**

As per Government Accounting system, the Customs Revenue is classified under Major Head 0037 and various other Minor Heads of Consolidated Fund of India. Further, Public Deposit like bail bond and other deposit etc. is required to be credited to Public Account Head 8443- Civil Deposits.

Audit observed that at International Airports, Ahmedabad, Amritsar and Lucknow the Customs revenue, which was mainly collected by issuing manual receipt was not classified properly. All revenue like BCD, Cess, Health cess, Agriculture Infrastructure and Development Cess (AIDC), Bail Bond deposit etc. are shown only under Major Head-0037 and not classified up to minor head. Further deposit like Bail Bond deposit was also shown under Major Head-0037 instead of Civil Deposit-8443 for this purpose. Non classification/improper classification will result in incorrect projection of Customs revenue.

The mis-classification error was also noticed in UB Centre at JNCH, Mumbai and at ICT, Mumbai wherein deposit of revenue proceeds collected on e-auction of unclaimed/uncleared goods were mis-classified.

### **3.12.6 Record maintenance and inspection of KYCs of consignees**

(i) Regulation 12 of Courier Imports and Exports (Electronic Declaration and Processing) Regulations, 2010 imposes obligations on Authorised Courier to verify KYC particulars of importer and exporter, proof of delivery and maintain all related

documentation up to five years so that full audit trail of the process could be established, if required.

Records of KYC and others documents were not furnished to Audit when called for at ICT, Bengaluru.

At ICT Bengaluru, Audit examined a sample of 20 OIOs passed during the years 2019-20 and 2020-21, wherein Indian currency was imported during the demonetization time. In eight cases, consignees did not accept consignment being addressed to them, while other eight consignees accepted and paid the penalty, in another four cases the consignees did not respond to SCNs. Although the circular No.02/2018- Customs dated 12 January 2018 exempts KYC verification of documents received through courier, the Department could resort to verification of the same in such doubtful cases to avoid instances of fake consignee names/addresses being used to send such shipments because of absence of KYC requirements for filing BoE.

(ii) Board vide Circular No.23/2006-Customs laid down 100 *per cent* screening of import/ export consignments and up to 10 *per cent* physical examination of the total import/export on specific intelligence. The consignments so selected to be examined 100 *per cent*. Further, Directorate of Logistics (14 November 2012) guidelines prescribed machine log book, day-to-day actual running time register for X-ray machines to be maintained in the field formations.

At ICT-Bengaluru and Kolkata, Audit observed non- maintenance of machine logbooks, running time registers of machines, audit trail of goods subjected to physical examination. In the absence of such data, Audit could not ensure compliance to the laid down requirements.

### 3.12.7 Weakness in Internal Audit

Customs Audit Regulations, 2018 have been notified vide Notification No. 45/2018-Customs (N.T.) dated 24 May 2018 providing a separate legal framework for Customs Internal Audit. The Customs Audit Manual 2018 compiled the principles, methodology and procedure for conducting three types of Customs audits i.e Transaction based audit, Theme based audit (TBA) and Premises based Audit (PBA).

Directorate General of Audit DG (Audit) of CBIC and its seven zonal units at Ahmedabad, Bangalore, Chennai, Delhi, Hyderabad, Kolkata and Mumbai each headed by Additional Director Generals shall undertake internal audit of all units of Chief Commissioner and Commissionerates falling under each Zone.

Audit examination revealed that internal audit was not conducted in the FPOs, ICTs, International Airports and Unaccompanied units test checked.

- i) At FPO Mumbai, Bengaluru, Bhubaneswar, Ludhiana, Jaipur, Kolkata, Varanasi and Hyderabad, Audit noticed that no internal audit of office of the Deputy/Assistant. Commissioner of Customs, Foreign Post Offices was conducted. In other FPOs (Ahmedabad, Kochi, Delhi and Chennai), the Department had not furnished the information whether internal audit was conducted.

FPO Delhi stated (February 2023) that audit observation was noted for future compliance.

- ii) Audit called for details of internal audit conducted in ICTs. Three ICTs (Bengaluru, Delhi and Kolkata) confirmed that no internal audit was conducted while two ICT's viz., Mumbai and Kochi have not responded. ICT, Bengaluru stated that a thematic audit on "Courier companies predominantly clearing Gifts and low value shipments" had been conducted in February 2020. Reply of Bengaluru ICT is not acceptable as thematic audit on a single topic is not a substitute for regular internal audit.
- iii) The internal audit was not conducted at Customs Commissionerate having jurisdiction of International Airports at Amritsar, Bengaluru, Bhubaneswar, Chennai, Hyderabad, Jaipur, Delhi, Lucknow and Kolkata along with two LCS at Petrapole and Ghojadanga. Information regarding conduct of periodic audit was not made available by the Department at Ahmedabad, Kochi, and Mumbai Commissionerates.
- iv) No Internal audit has been done at UB units, Bengaluru, Delhi, Kolkata, Hyderabad. However, a Data analytical report based on BDFs filed at all UB Centres was undertaken by the National Customs Targeting Centre (NCTC) by deploying data analytics and Machine learning (ML) targeting of risky consignments which may be incorrectly priced, in their report<sup>60</sup> dated 31 March 2021 had highlighted potential mis-declarations, under valuations and misuse of UB import channel beside weakness of UB module to alert Customs of such misuse.

In the absence of internal audit/internal inspection, it is difficult for Audit to draw an assurance about efficacy of the units in achieving the objectives, adherence to policies, the safeguarding of assets, prevention and detection of fraud and error, completeness of the records and the timely preparation of reliable information.

The aforesaid audit findings about shortcomings/ slippages noticed in test checked International Airports, ICTs, FPOs and UB units are testimony to requirement of regular internal audit/internal inspection.

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<sup>60</sup> Report No.11/2020-21 dated 31 March 2021

### 3.12.8 Grievance redressal

The grievance redressal is monitored at various levels to ensure continued efficacy. Norms of acknowledging complaints within 48 hours of receipt and attempting to provide final replies within 30 working days have been set in Citizens' Charter for prompt response to public grievances. A taxpayer could redress his grievance concerning any field offices across the country through a common online portal.

Audit called for the System of grievance redressal cell in FPOs. The Department replied that there was no separate grievance redressal cell for FPOs. The taxpayers would approach Customs headquarters office in the form of Centralised Public Grievance Redress and Monitoring System (CPGRAMS).

**Conclusion: Weak internal control measures were evident in International Courier Terminals (ICTs), International Airport (IA) Terminals and Foreign Post offices (FPOs) where monitoring by higher management was sporadic, poor maintenance of records, insufficient details of imports and exports, and no standardization of record maintenance across these units. Additionally, the Department had not carried out Internal Audit of test-checked units. This resulted in incorrect assessments, delayed actions on disposal of detained goods, delayed issue of SCNs and their adjudication, improper levy of penalty, lack of inter departmental coordination.**

**Recommendation No. 11 : There is a need for an IT based System to strengthen monitoring mechanism in International Courier Terminals (ICTs), International Airport (IA) Terminals and Foreign Post offices (FPOs) for detecting discrepancies in Assessments and Reports. Additionally, Internal Audits of these units be mandated at regular intervals and inter-departmental coordination be streamlined to tackle pendency of un-cleared goods.**

### 3.13. Conclusion

Audit scrutinized records with a view to securing an effective check on the assessment and collection of Customs duty, and examining that regulations and procedures are scrupulously followed concerning issuance of SCN/ Adjudication orders. As part of this SSCA, relevant records and information for the period from 2019 to 2022 were called for from all the selected 44 units under 21 Customs Commissionerates having jurisdiction over International Courier Terminals, International Airports, Unaccompanied Baggage Terminals and Foreign Post Offices.

This draft report includes a total number of 77 observations which included 11 Systemic and 10 compliance issues and 07 Internal Control issues. The revenue impact of the Chapter is ₹12.15 crore. The Customs Commissionerates responded in respect of 44 observations and accepted 40 observations.

Audit observed that the Department does not have distinct infrastructure norms for Customs facilitations separately each for IAs, ICTs, UB Centers and FPOs.

Manpower shortages, space shortages, absence of institutional mechanism for training of screeners make ports vulnerable to illegal traffic and delayed clearances as well.

Regarding ECCS, Audit noted that ECCS had weak validation controls over assessment of duty for gifts and personal imports, allowing personal goods as commercial samples leading to short levy/non-levy. Instances of incorrect adoption of exchange rates, acceptance of incorrect Forms of imports, higher dwell time for clearances, weak controls on quantitative and value limits on export consignments were noticed.

Further, Customs clearances of Postal goods (Imports and Exports) is prone to misuse owing to deficiencies in manual procedures, documentation, assessments, collection/ accounting/ reconciliation of duties which also had revenue implications. Absence of EDI applications for Imports and non-functional commercial Exports EDI application (ICAN-lite) without complete integration with Customs department's online assessment system (ICES) had defeated the objective of promoting clearances through FPO and also had likelihood of delayed IGST refunds to exporters.

Audit further observed absence of interaction between Custodian and Customs coupled with monitoring failures over pendency are clearly evident, ultimately leading to destruction of goods and revenue losses. Further, manual methods in inventory managements or absence of integrated digital module for inventory and irregular physical verifications resulted in poor monitoring mechanism and long pendency in-disposal of uncleared/unclaimed/seized and confiscated goods.

## CHAPTER IV

### Non- Compliance to provisions of various Export Promotion Schemes of Foreign Trade Policy

#### 4.1 Introduction

The Foreign Trade Policy (FTP) provides a framework for increasing exports of goods and services with a focus on improving trade facilitation and ease of doing business. The FTP 2015-2020 has been notified by the Central Government in exercise of powers conferred under Section 5 of the Foreign Trade (Development and Regulation) {FTDR} Act 1992, as amended. Directorate General of Foreign Trade (DGFT), under Ministry of Commerce and Industry (MoCI) is responsible for formulating the FTP which is implemented jointly by DGFT and Department of Revenue.

The Export Promotion Schemes under FTP can be categorised as:

**(I) Export from India Schemes:** These aim to provide rewards to exporters to offset infrastructural inefficiencies and associated costs involved in exports of goods and to provide exporters a level playing field. The two main schemes under this category are Merchandise Exports from India Scheme<sup>61</sup> (MEIS) and Service Exports from India Scheme (SEIS).

**(II) Duty Exemption and Remission Schemes:** These enable duty free imports or imports at concessional rates, of capital goods and other inputs for export production or duty remission to provide relief of taxes and duties suffered by the exporters in course of producing exported goods. Advance Authorisation, Duty Free Import Authorisation, Duty Drawback, Remission of Duties and Taxes on Exported Products (RoDTEP) and Scheme for Rebate on State and Central Taxes and Levies (RoSCTL) notified by the Ministry of Textiles and implemented by the DGFT are important schemes under this category. The Export Promotion Capital Goods (EPCG) scheme facilitates import of capital goods under zero/ concessional rates for producing export goods and services at competitive prices.

DGFT issues scrips/licences to exporters under various export promotion schemes and monitors their corresponding obligations through a network of 25<sup>62</sup> Regional Authorities (RAs). All 25 RAs are computerised and connected to the DGFT Central server. Import of inputs and capital goods under export promotion schemes are exempt, wholly or partly from Customs Duties. Importers of such exempted goods undertake to fulfil prescribed Export obligation (EO) as well as to comply with other specified conditions, failing which the duty exempted becomes recoverable by the Customs Department under the Act. In addition to action by the Customs

<sup>61</sup> MEIS was withdrawn with effect from 1 January 2021.

<sup>62</sup> With one extension counter of RA-Bhopal

Department, the licensee is liable to penal action by DGFT under the Foreign Trade (Development and Regulation) (FTDR) Act, 1992, for not fulfilling the conditions of the licence issued.

#### **4.2 Non-compliance to provisions of Export Promotion Schemes**

Total revenue implication involved in the 30 high value cases featured in this Chapter is ₹773 crore where 'Refund of Integrated Tax (IGST) to non-entitled EOUs and AA holders' and export incentives as duty credit scrips were irregularly issued. Additionally, exemptions were availed of without fulfilling the provisions of FTP and Hand Book of Procedures (HBP).

Of the 30 cases reported, one case is of 'Refund of IGST', 12 cases pertain to SEIS, five cases are of MEIS, another five cases relate to Advance Authorization Scheme, three cases refer to SEZ/EOU units and four cases relate to Duty Drawback Scheme. The Ministry/Department accepted 30 cases and reported recovery of ₹36.21 crore (including interest) in 25 cases (upto July 2024).

Out of 30 cases, 21 cases involving total revenue implication of ₹771.42 crore are discussed in the following paragraphs. The remaining nine cases involving total revenue implication of ₹1.58 crore are summarized in **Annexure 17**.

#### **4.3 Irregular refund of Integrated Goods and Services Tax (IGST) to Export-Oriented Units (EOUs) and Advance Authorisation (AA) holders**

**4.3.1** As per Section 16(3) of the IGST Act, 2017, a registered person making a zero-rated supply<sup>63</sup> is eligible to claim refund in accordance with the provisions of Section 54 of the CGST Act, 2017, under either of the following options, namely:

- (i) A registered person making zero rated supply shall be eligible to claim refund of un-utilised input tax credit on supply of goods or services or both, without payment of integrated tax, under bond or Letter of Undertaking, subject to such conditions, safeguards and procedure as may be prescribed; or
- (ii) The person who makes zero rated supply on payment of integrated tax may claim refund of the tax so paid in accordance with the provisions of section 54 of the Central Goods and Services Tax Act or the rules made thereunder.

**4.3.2** Further, Rule 96 of the CGST Rules, 2017 governs the refund of integrated tax paid on goods (or services) exported out of India. In terms of sub-Rule 10 of Rule 96, as amended<sup>64</sup>, the persons claiming refund of integrated tax paid on

<sup>63</sup> Zero rated supply" means any of the following supplies of goods or services or both, namely (a) export of goods or services or both; or

(b) supply of goods or services or both for authorised operations to a Special Economic Zone developer or a Special Economic Zone unit.

<sup>64</sup> Notification No. 53/2018-CT dated 09.10.2018 and 54/2018-CT dated 9.10.2018

exports of goods or services should not have received supplies on which the benefits under following notifications have been availed:

- a) Notification No. 78/2017-Customs dated 13 October 2017, applicable to Export Oriented Units (EOUs) for exemption from whole of the duties of Customs and the integrated tax and compensation Cess on imports (the principal notification of which was issued under Notification No. 52/2003-Customs dated the 31 March 2003) or
- b) Notification No. 79/2017- Customs dated 13 October 2017 applicable to Advance Authorisation (AA) holders for exemption from the whole of duties of Customs on imports (the Principal Notifications of which were issued under Customs Notifications No. 18/2015, 20/2015, 21/2015, 22/2015 dated 1 April 2015 and 45/2016 dated 13 August 2016).

In view of the restrictions placed on the EOUs and AA holders under Rule 96(10), as they receive the supplies under Notification No. 78/2017 or under 79/2017 respectively, the EOUs and AA holders are not eligible to claim refund of IGST from Customs authorities. But they have the option to claim the un-utilised Input Tax Credit (ITC) of CGST, SGST/UTGST and IGST from the GST Commissionerate after filing refund application in RFD 01A<sup>65</sup>.

Subsequently, an explanation was included to Rule 96(10) vide Notification No. 16/2020-CGST dated 23 March 2020 whereby goods manufactured from inputs in respect of which only exemption from BCD is claimed but IGST and Compensation cess are paid upon importation, restriction under rule 96(10) would not apply. Due to this explanation, the exporters who claim exemption from BCD and pay IGST and Compensation cess on the imported inputs can proceed with the option of export with payment of tax and obtain refund of such taxes paid. This Notification was issued with retrospective effect from 23 October 2017.

#### **4.3.3 Audit Objectives**

The audit was conducted to ascertain whether -

- (i) Any IGST refund was granted to the ineligible categories of exporters (EOUs and AAs) in violation of the aforementioned amended CGST Rule provisions; and
- (ii) Whether any validation controls were effected in the Customs EDI system (ICES 1.5) to prevent those ineligible exporters (viz., EOUs and AAs) from making IGST payment on exports and obtaining refund on such IGST paid.

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<sup>65</sup> RFD-01A is the application form for refund under GST for manual processing, notified for certain refund cases.



#### **4.3.4 Audit Scope**

During this audit, Bills of Entry (BEs) / Shipping Bills (SBs) pertaining to sample selected EOUs and Advance Authorisation holders were verified with reference to the 'Scheme code' under which such imports/exports were made and for which IGST refunds were sanctioned by Customs department through ICES 1.5 from 9 October 2018 to 31 March 2022. The business process of EDI system (ICES 1.5) of Customs designed to undertake IGST refunds was also analysed.

#### **4.3.5 Audit Coverage**

The audit of refund of IGST paid on exports in respect of sample selected EOUs and Advance Authorisation holders was carried out on Pan India basis. Under each Customs field formations, two major Customs Commissionerate's were selected. In the selected two Customs Commissionerate, imports and exports of 25 EOUs and 15 Advance Authorisation holders<sup>66</sup> were verified from the Imports / Exports data and confirmed through SSOID<sup>67</sup>. For verification of Shipping Bills (SBs), the actual number subject to a maximum of 75 SBs in respect of each EOUs /AA holders were verified involving refund of IGST. Wherever export data was made available, more than 75 SBs were also verified.

#### **4.3.6 Audit Criteria**

The refund provisions provided in the IGST Act 2017, CGST Act 2017 and CGST Rules 2017 were referred to substantiate the findings. Periodical amendments to the refund provisions effected through respective CGST notifications and related Customs notifications were also referred for this purpose.

#### **4.3.7 Audit Methodology**

The audit was conducted during the period December 2022 to February 2023. Entry and Exit meetings were held by field Audit offices with the respective Customs Commissionerates.

An attempt was made to quantify the irregular sanction of IGST refunds due to non-mapping of business process of ICES aligned with Rule 96(10) of CGST Rules 2017 read with CGST Notification 16/2020 dated 23 March 2020. The audit findings where refund of IGST to ineligible EOUs/AAs were sanctioned during the period from 09 October 2018 to 31 March 2022, have been compiled in this report.

#### **4.3.8 Process of IGST Refunds made by Customs**

After the introduction of IGST on exports w.e.f. 01 July 2017, if an exporter who after payment of IGST on exported goods applies for refund of IGST by opting Mode 1, then the refund of IGST paid on exports is processed by GSTN system. GSTN

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<sup>66</sup> Selected through Stratified Random Sampling Method

<sup>67</sup> SSOID- Access to CBIC web portal through authorised Single Sign on ID.

system validates the data furnished by the exporter in Goods and Services Tax Return <sup>68</sup>(GSTR) 1 and GSTR<sup>69</sup> 3B and transmits the validated data to ICEGATE for refund on account of IGST paid on exports. If the data is not validated at the GSTN end itself, the invalidated cases are shown as “Non-integrated cases”. Hence, it is the responsibility of the exporters concerned to sort out the error in GST side for “Non-integrated cases”.

If the exporter has provided correct information in the GSTR Form 1 and 3B, it will be transmitted electronically to ICEGATE, wherein the GST return data is matched with the Shipping Bill data. If the matching is successful, ICES 1.5 processes the claim of refund and the relevant amount is credited through PFMS<sup>70</sup> to the bank account of the Exporter.

#### 4.3.9 Significance of Scheme code and its applicability for IGST refunds

In each Bill of Entry or Shipping bill, the scheme under which such imports / exports are made could be ascertained from the ‘Scheme code’ captured therein. The Scheme code for an EOU is 21 and for Advance Authorisation holders it is 03 or 17.

On the imports side, all Bills of Entry filed by selected EOUs/AA holders with Scheme code 21 (EOUs) and 03 or 17 (for AAs) during the period 09 October 2018 to 31 March 2022 (who had received refund of IGST on exports) were examined or commented.

#### 4.3.10 Audit Findings

##### 4.3.10.1 Systemic Issue

##### Lack of proper validation controls in ICES 1.5 resulted in irregular IGST refund to EOUs and AA Holders

Though amendments to Rule 96(10) of CGST Rules, 2017 were introduced for regulating the IGST refunds to eligible EOUs and Advance Authorisation holders, the business process of EDI System of Customs, designed to implement the IGST refunds, was not aligned with those amendments brought out in CGST Rules<sup>71</sup>. Consequently, when EOUs/AA holders imported goods after 09 October 2018 by availing IGST exemption under Notification No. 78/2017-Customs or under Notification No.79/2017-Customs, and preferred refund of IGST paid on exports, alerts were not triggered to departmental officers since no validation checks were

<sup>68</sup> GSTR 1 is a return of reporting. It is filed by the taxpayers either monthly or quarterly. This return indicates your return on outward supplies, which is nothing but a sales return.

<sup>69</sup>GSTR-3B is a return of tax payment filed by a taxpayer on supplies made during the month along with GST to be paid, input tax credit claimed, purchases on which reverse charge is applicable, etc., and also makes a provision for the payment of taxes, if any, for the relevant month.

<sup>70</sup>The Public Financial Management System (PFMS) is a web-based online software application implemented by the Controller General of Accounts (CGA), Department of Expenditure, Ministry of Finance for schemes of Govt of India.

<sup>71</sup> Notification No. 53/2018-CGST and 54/2018-CGST dated 9<sup>th</sup> October 2018

inbuilt. ICES 1.5 validates the data received from GST Server (based on the information furnished by Exporters in GSTR 1 and GSTR 3B) and refund of IGST paid on exports is processed automatically without placing any restriction or validation check to detect EOUs/AA holders.

Out of 70 Customs Commissionerates, 21 Customs Commissionerates involving 50 Ports were selected for verification of Imports and Exports pertaining to selected 241 EOUs and 298 AA Holders against total of 479 EOUs and 9535 AA Holders respectively who had received refund of IGST paid on Exports during the period from 9 October 2018 to 31 March 2022. **(Annexure 18).**

**(i)** As against 241 EOUs selected for verification, Audit observed that in 148 EOUs, imports (55,900 Bills of Entry) with an aggregate Assessable Value (AV) of ₹26,021 crore were filed in 21 Commissionerate under Scheme code 21 or 03. Out of this 55,900 BsE, in 50,447 BEs (90 *per cent*), no import duty was paid by the EOUs. In the balance 5,453 BsE, a sum of ₹264.35 crore was paid as IGST under Scheme code 21 **(Annexure 19).**

During the same period, on the Export side, 32,075 Shipping Bills were filed by these EOUs under Scheme code 21 and IGST refunds for a sum of ₹1,238.06 crore **(Annexure 19)** was sanctioned and paid by Customs Commissionerate. Out of these 32,075 SBs, Audit verified 7,031 SBs (21 *per cent*) through data/SSOID and found that IGST refund of ₹333.11 crore had been irregularly paid in 5,989 SBs, which was pointed out **(Annexure 19).**

**(ii)** Similarly, during the same period, as against 298 AAs selected for verification, Audit observed that in 142 AAs, 25,031 BEs with an aggregate Assessable value of ₹19,885.78 crore for imports were filed in 21 Commissionerate. Out of 25,031 BEs, 15,098 BsE (60 *per cent*) were filed under Scheme code 03 or 17, where no import duty was paid. In the balance 9,933 BsE, a sum of ₹579.73 crore was paid as IGST under Scheme code 03 or 17.

On the Export side, 14,346 SBs were filed under Scheme code 03 or 17 and IGST refund amounting to ₹1,009 crore was sanctioned and paid by Customs Commissionerate. Out of these 14,346 SBs, Audit verified 6,047 SBs (42 *per cent*) through data/SSOID and found that IGST refund of ₹402.96 crore has been made in 3,730 SBs, which was pointed out as irregular **(Annexure 20).**

**4.3.10.2** The Ministry response has not been received (Jan 2025). However, Field formations accepting the observation reported few recoveries (₹ 13.58 crore) and initiated recovery action in other cases.

It was further added by the Customs Commissionerates that necessary changes to prevent the incorrect refund have not been factored in the ICES system. Accordingly, considering the gravity of the issue with pan-India ramifications involving huge revenue, the matter was escalated for being taken up with

Directorate General of Systems & Data Management (ICES) for addressing the issue. Also, an alert has been generated to sensitize all concerned including trade/Customs officers to prevent availing of similar refunds by incorrect route.

#### 4.3.10.3 Conclusion

Though incorrect refund of IGST was made by the Customs Department, the power to issue SCN and adjudication order vests only with the jurisdictional GST Commissionerate under Section 73 of CGST Act. Hence, the issue was pointed out by Audit to the Customs Department to cause recovery of the IGST refunds along with interest by taking up with the jurisdictional GST Commissionerates.

The above audit findings during test check have brought out systemic lacuna in the Customs EDI system which resulted in irregular refund of ₹736 crore.

#### 4.3.10.4 Recommendations

- (i) Board may consider bringing in suitable modifications in the export module of ICES 1.5 to give effect to the GST amendment to avoid erroneous refund of IGST.**
- (ii) In terms of the definition provided under Section 2 (91) of the CGST Act, 2017 for invoking Section 73, Board may consider devising a suitable mechanism for effecting recovery in cases of erroneous IGST refunds sanctioned by the Customs authority. At present, Customs officers can only cause such recovery to be made by communicating to the jurisdictional State/UT/Central GST authorities, which is a time consuming and cumbersome process and requires proper monitoring.**
- (iii) Audit test checked only 21 Customs Commissionerates. This exercise may be carried out for pan India cases of IGST refund under all the Commissionerates for recovering the amount of refunds which were not permissible as per extant rules/orders.**

#### 4.4 Service Exports from India Scheme (SEIS)

As per Paragraph 3.08 of Foreign Trade Policy (FTP) 2015-20, Service providers of notified services shall be entitled to 'Duty Credit Scrip' under Service Exports from India Scheme (SEIS) on net foreign exchange earned at rates notified in Appendix 3D. Reward under SEIS shall be admissible for services rendered on or after the date of notification of the FTP 2015-20 i.e. 1 April 2015. Under SEIS, services rendered in the manner as provided in Para 9.51 (i) and 9.51(ii) of FTP, shall only be eligible for duty credit scrip.

As per para 9.51 ibid, Service Provider means a person providing:

- (i) Supply of a service from India to any other country (Model 1-cross border trade)
- (ii) Supply of a service from India to service consumers of any other country in India (Model 2-Consumption abroad)

Audit noticed irregularities in issuance of SEIS scrips by the Additional DGFT-Mumbai (RA-Mumbai), Zonal DGFT- Chennai (RA-Chennai), Additional DGFT-Kolkata (RA-Kolkata), Madras Export Processing Zone Authority, and Joint DGFT-Jaipur (RA-Jaipur) involving duty credit of ₹11.31 crore in 12 cases. The Ministry/ Department accepted all cases and recovered ₹13.88 crore (including interest) in 10 cases. Recoveries in remaining two cases is awaited. Out of these, eight cases are discussed in the following paragraphs and remaining four cases are summarized in **Annexure 17 (Sl. No 1 to 4)**.

#### **4.4.1 Issue of SEIS licence for ineligible services provided**

M/s. 'G' Pvt. Ltd. was granted SEIS scrip (March 2019) for ₹9.79 crore by RA, Mumbai for services rendered during FY 18 under category 'Maritime Transport Services.

Audit scrutiny of the documents submitted by the applicant revealed that the exporter owned two Crude oil tankers trading worldwide under Indian Flag. The exporter through these two oil tankers provided the services of oil transportation from one country to another country. The applicant while submitting the claim for SEIS reward had included FE earned (USD 7.63 lakh) for services provided to Indian Companies viz. M/s. 'H', M/s. 'I', M/s. 'J' and the amount was received in Indian Rupees. Since the services provided to Indian companies are not covered under Para 9.5(i) and 9.5(ii) of the FTP, hence ineligible for SEIS benefits. Further, the amount for services rendered should have been received in foreign exchange. Although, these two conditions were not fulfilled, the Department irregularly computed SEIS entitlement as claimed by the exporter. This resulted in irregular grant of SEIS script for ₹4.89 crore, out of total scrip value of ₹9.79 crore sanctioned.

The RA, Mumbai reported (May 2023) recovery of ₹4.89 crore plus interest of ₹2.80 crore from the Exporter.

#### **4.4.2 Grant of excess SEIS on ineligible services**

Paragraph 3.09 of FTP 2015-20 stipulates that foreign exchange remittances other than those earned for rendering of notified services would not be counted for entitlement.

M/s. 'K' (India) Pvt. Ltd. had filed a claim (March 2019) for SEIS benefits under two services (1) Engineering Services and (2) Management Consulting Services exported during FY 17 under Central Product Classification (CPC) codes 8672 and 865 of Appendix 3D respectively. Of the total NFE of USD 81.51 lakh earned, USD 45.26 lakh was stated to have been collected for Engineering Services. RA, Mumbai granted (January 2020) SEIS scrips for ₹2.05 crore which included reward of ₹1.38 crore for

Engineering Services beside reward for Management Services (₹0.67 crore) after deducting late cut<sup>72</sup> for delayed filing.

Detailed explanation of CPC Code 8672 specifies that, Engineering Services include services related to the nature of Civil, Mechanical and Electrical Engineering Service.

Audit scrutiny of the write up of rendered services provided by the claimant revealed that, they were involved in providing technical consultancy services in the field of application engineering i.e. development and maintenance modules for Java, Android, Windows, providing solutions to the problems faced by user of latest technology product such as mobile, computer etc. and addresses basic software problems over the telephone or using remote access repair and complicated hardware problems dealt with in person. The services provided by Applicant Company falls specifically under the CPC code 8421- Systems and software consulting services which is not included in Appendix 3D, hence ineligible for SEIS benefits. Accordingly, the SEIS claim made under CPC code 8672 by the applicant was irregular which resulted in grant of excess SEIS scrip to the tune of ₹1.38 crore<sup>73</sup>.

The Department issued a letter to the exporter (August 2022) to pay the excess duty credit. Further progress was awaited (January 2025).

#### 4.4.3 Irregular grant of SEIS scrip on ineligible charges collected as 'Airport Authority levy'

DGFT, New Delhi vide their Trade Notice No. 11/2015-20 dated 21 July 2016 had reiterated the compliance of the FTP provisions for calculation of the entitlement of SEIS scrip credit on the basis of receipt of foreign exchange earned which does not include the taxes collected.

M/s. 'L' Transport Services Ltd had filed an application (April 2018) for SEIS benefits against services exported during FY 17 declaring total NFE earnings of USD 3.11 crore (₹200.51 crore). RA, Mumbai granted (September 2019) claim at five *per cent* of the total NFE earned amounting to USD 15.54 lakh (equivalent to ₹10.02 crore).

Audit scrutiny of available sample invoices revealed that the applicant company collected Service Charge, Service Tax (ST), Cess on ST, and 'Airport Authority of India Levy' from the customer. It was noticed from the details of foreign exchange earned that while claiming SEIS benefits, the applicant Company excluded only Service Tax and cess amount from the gross FE earned amount but not the 'Airport levy' collected. Thus, Company irregularly claimed SEIS benefits on 'Airport Authority of India Levy'<sup>74</sup> totalling ₹26.06 crore collected from the customer. Since 'Airport

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<sup>72</sup> Late cut- Wherever an application for any fiscal/financial benefits under FTP complete in all respects is received after expiry of last date for submission, the application may be considered after imposing a late cut.

<sup>73</sup> (USD 2.26 lakh \* 64.5) – 5% late cut = ₹ 1.38 crore

<sup>74</sup> Airport Authority of India Levy @14.89% (till May 2016) and @14.95% (June 2016 onwards)

Authority of India Levy' (₹26.06 crore) is payable to Airport Authority after collecting from the customer, the same is required to be excluded from the declared NFE earnings of ₹200.51 crore for computing SEIS entitlement. However, RA, Mumbai granted the SEIS scrip for ₹10.02 crore without deducting 'Airport Authority levy' charges. This resulted in excess grant of SEIS of ₹1.30 crore.

The Department accepted the audit observation and reported recovery of ₹1.30 crore plus Interest (₹56.18 lakh).

#### **4.4.4 Excess grant of SEIS scrip due to non-deduction of expenses**

The rewards to exporters shall be granted at a specified percentage of NFE earned in the preceding financial year. Further, NFE earnings for the scheme are defined as gross earnings of foreign exchange minus total expenses/payment/ remittances of Foreign Exchange relating to service sector in the financial year.

M/s. 'L' Air Transport Services Ltd. had filed (March 2018) a claim for SEIS benefits against Air Transport services exported during FY 17. Net foreign exchange earnings of USD 3.11 crore was stated against claim of rewards at five *per cent* amounting to USD 15.54 lakh (Equivalent to ₹10.02 crore) and the same was granted by RA, Mumbai.

Audit scrutiny of SEIS records revealed that, the applicant company had not declared any FE expenditure incurred for the relevant business and claimed SEIS on the basis of gross foreign exchange earnings and the same was allowed by the Department. On cross verifying the claim with the Annual accounts of the licensee, it was observed that the applicant's main business was ground handling service at most of the airports in India and expenditure of USD 35.80 lakh has been incurred on procurement of Capital goods during the relevant year 2016-17. However, foreign exchange expenditure was not deducted from gross FE earned, while claiming SEIS benefit. This resulted into overstatement of NFE and consequent excess grant of SEIS to the tune of ₹1.15 crore.

The Department accepted the audit observation and reported recovery of ₹1.15 crore plus interest (₹49.77 lakh).

#### **4.4.5 Incorrect grant of SEIS scrip for ineligible services**

Research and Development services on natural sciences under CPC 851 notified at Sl.No.1Ba of Appendix 3D are eligible for incentive under SEIS. However, Royalties for the right to use patents i.e. periodic fees in respect of licences for inventions under CPC 89210 are not eligible for SEIS benefits.

M/s. 'M' Ltd. had applied (March 2019) for grant of incentive for services rendered during FY 2017-18 under category of Research and Development Services in natural sciences (Sl. No. 1Ba of Appendix 3D, CPC 851) and declared Net foreign exchange earnings of USD 2.39 crore. The claim was for incentive at USD 14.39 lakh equivalent



to ₹9.23 crore<sup>75</sup>. RA, Mumbai granted (January 2020) the incentive of ₹9.23 crore in 10 split up SEIS scrips.

Audit scrutiny of the documents submitted by the firm revealed that M/s. 'M' Ltd. had rendered services to their own overseas subsidiaries M/s.'MA' holding, SA, (LAHSA) under the nine different service agreements on the cost-plus mark-up basis. Under one of the agreement, applicant had also designed various product dossiers on the basis of concept of different studies and also transferred the rights to use information in the dossier to a Service recipient outside India. The applicant was eligible for an upfront and milestone payments for product approval, dossier submission and product delivery. However, the rights and Intellectual Property rights over the product dossier including the patent and know how would remain the exclusive property of the applicant for which the recipient should pay Licence fee to Services Exporter (M/s. 'M' Ltd.). The Royalties/licence fee for the right to use patents fall under the category CPC-8921 which is not covered under Appendix 3D of SEIS, hence ineligible for SEIS benefits. In the instant case, the applicant received USD 16.30 lakh on account of licensing fee towards providing services related to dossier acquisition, patent, knowhow etc. and claimed SEIS benefit of USD 15.71 lakh (equivalent to ₹62.37 lakh). Although, all these services were ineligible for SEIS benefits, the Department granted SEIS scrips without excluding FE earned on ineligible services. This resulted in incorrect grant of SEIS incentive to the extent of ₹62.37 lakh.

The Department issued Show Cause Notice (October 2022) to the firm. Further progress was awaited (January 2025).

#### 4.4.6 Grant of excess SEIS scrip

M/s. 'G' Pvt. Ltd. had applied (August 2019) for grant of incentive for services rendered during FY 19 under category of 9Ab- Maritime Transport Services – Freight Transportation-CPC 7212 and 9Da – Services Auxiliary to all Modes of Transport – Cargo Handling Services (CPC 741) for NFE earnings of USD 5.59 crore. RA, Mumbai sanctioned (October 2019) SEIS duty scrip amounting to USD 39.15 lakh equivalent to ₹26.76 crore incentive at the rate of seven *per cent* on NFE earned.

Audit scrutiny of the applicant's SEIS claim records revealed that the exporter had filed a revised NFE earnings statement (ANF 3B) on 7 October 2019 after deletion of one ineligible invoice of Indian Oil Corporation Ltd. Thus, after exclusion of such ineligible invoice, NFE was reduced to USD 5.47 crore instead of USD 5.59 crore considered by the RA. Accordingly, SEIS benefit to the extent of USD 38.27 lakh (Equivalent to ₹26.16 crore) was only allowable. However, RA granted SEIS for

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<sup>75</sup> 1 USD = ₹64.15



₹26.76 crore without considering the revised NFE earnings. This resulted in excess issuance of SEIS scrip of ₹60 lakh.

The Department reported recovery of ₹60 lakh along with interest (₹26.44 lakh).

#### **4.4.7 Incorrect grant of SEIS duty credit for ineligible services**

M/s. 'N' (India) Pvt. Ltd., applied to RA, Chennai for grant of SEIS Duty credit scrip for the Engineering Services (CPC 8672) rendered during FY 18. The firm had earned a gross foreign exchange of USD 22,53,990 and had incurred expenses amounting to USD 3,26,674. The firm was issued (November 2018) an SEIS duty credit scrip for ₹72.51 lakh by RA, Chennai.

Audit scrutiny of the 225 invoices revealed that in 87 invoices against which foreign exchange (USD 14,07,625) was earned, the firm had deputed onsite personnel for supervisory work to various countries for Thermal Engineering/Construction Management Services/ Thermal Power Project etc.

The foreign exchange earned for supervisory/inspection visits to other countries would fall under Mode 4 (Presence of natural persons in other countries) and hence were in-eligible for SEIS benefit under the Scheme. The total ineligible amount worked out to ₹41.95 lakh.

The Department, reported that the firm had remitted ₹52.62 lakh (including interest of ₹10.67 lakh). However, the firm had contested an amount of ₹15.41 lakh and filed an appeal with Additional DGFT, Chennai. Further progress was awaited (January 2025).

#### **4.4.8 Incorrect issue of SEIS benefits on services rendered prior to 1<sup>st</sup> April 2015**

Ministry of Commerce and Industry had notified the SEIS scheme w.e.f 1 April 2015.

M/s. 'O' Pvt.Ltd. had filed (March 2019) an application for SEIS benefits for the services rendered during FY 16 and declared Net Foreign Exchange (NFE) earnings of USD 1.87 crore for providing two types of services; (i) Technical testing and analysis services (CPC 8676, Sl. No. 1,De) and (ii) Management consulting services (CPC 865, Sl. No. 1, Dc).

The exporter claimed SEIS rewards at the rate of three per cent amounting to USD 5.61 lakh (equivalent to ₹3.72 crore) for both the services. The RA, Mumbai, after imposing late cut of 10 *per cent*, granted the net reward amounting to ₹3.35 crore.

Audit scrutiny of invoices revealed that the reward included an amount of ₹36.46 lakh which pertained to FE earned during 2014-15 i.e. prior to introduction of SEIS (1<sup>st</sup> April 2015), hence ineligible. This resulted in excess grant of SEIS scrip to the tune of ₹36.46 lakh.

The RA, Mumbai reported (July 2023) recovery of ₹36.47 lakh plus interest of ₹20.80 lakh.

#### 4.5 Merchandise Exports from India Scheme (MEIS)

Merchandise Exports from India Scheme (MEIS)<sup>76</sup>, an export promotion scheme under Chapter 3 of the FTP, 2015-20 provides for duty credit at the rates prescribed in Appendix 3B Handbook of Procedures (HBP), Volume-I. The calculation of reward would be on realized Free on Board (FOB) value of exports in free foreign exchange or on FOB value of exports as given in the shipping bills whichever is less, unless otherwise specified.

##### 4.5.1 Irregular sanction of MEIS scrip on export of ineligible products

DGFT vide Public Notice (PN) no.32/2015-20 dated 22 September 2016 extended MEIS benefit under Serial No. 510 of Appendix 3B, on export of products covered under Indian Trade Classification- Harmonized System ITC (HS) code 13021919. It does not include extracts of Amla, Spinach, Curcuma longa, Chlorophyll, Onion, Spinach, Boswellia serrata, Tulsi and few others classified under ITC (HS) 13021919. DGFT vide PN no.62/2015-20 dated 16 February 2018 issued directives to all RAs for cutting down delays and to increase the transparency in processing the applications for MEIS claims. The PN prescribed that in respect of ITC (HS) Codes specified in the Annexure attached to this PN, the RA shall continue to process the application for MEIS claims in manual mode after matching the description as in the shipping bill with export product description provided in table 2 of Appendix 3B. Serial no.510 with ITC(HS) Code 13021919 has been included in the Annexure to the PN, meaning thereby that claim to be processed manually by matching the description of the export product with description in Appendix 3B of MEIS.

##### 4.5.1.1 Irregular sanction of MEIS scrip for exports of extracts of Amla, Spinach, Curcuma longa, Chlorophyll, Onion, Spinach and others

M/s. 'P' Industries and seven others filed MEIS claim applications for exports worth ₹58.56 crore of extracts of Amla, Spinach, Curcuma longa, Chlorophyll, Onion, Spinach, Boswellia serrata, Tulsi, Sesamin etc. under ITC(HS) 13021919 during the period April 2017 to May 2019. RA, Kochi and DC, Cochin, SEZ issued 112 MEIS licenses involving revenue of ₹3.84 crore.

Audit observed that the goods exported were not those specified against serial no.510 of Appendix 3B and hence not eligible for MEIS benefits under ITC (HS) code 13021919. However, RA, Kochi and DC, CSEZ-Cochin did not verify and match the item description mentioned in the Shipping bills with the item description against Sl. No. 5071/510 mentioned in table 2 of Appendix 3B as required in PN No. 62/2015-20 dated 16 February 2018 and issued MEIS licenses involving value of ₹3.84 crore. This had resulted in sanction of ineligible MEIS amounting to ₹3.84 crore.

<sup>76</sup> MEIS was withdrawn with effect from 1 January 2021

The RA, Kochi reported (February 2024) recovery of ₹1.49 crore (including interest) from four exporters<sup>77</sup> and issued notice to one exporter (M/s. 'Q' Pvt. Ltd). Reply from RA, Kochi in respect of remaining three exporters<sup>78</sup> was awaited. Response of DC, CSEZ, Cochin was awaited (January 2025).

#### **4.5.1.2 Irregular issue of MEIS scrips for export of Vanilla Oleoresin**

CBEC vide Circular No. 15/2000-Cus F.No. 609/443/97-DBK dated 24, February, 2000 clarified that the correct classification of Vanilla extract is under sub-heading 130219 and charged to duty correspondingly. Accordingly, Vanilla oleoresins or Vanilla extract is rightly classifiable under CTH "13021919-Other extracts."

M/s. 'P' Industries Pvt. Ltd. made exports of 'Vanilla extract and Oleoresins' through Cochin Sea Port/Cochin Air Port and claimed MEIS licences. The exports were misclassified under CTH 33019029 as 'Oleoresins of spices not elsewhere specified' instead of the correct classification under CTH 13021919. The misclassification of exports made in the Shipping Bills went undetected by the Customs authorities and MEIS licences worth ₹9.20 crore were issued for ineligible export products.

Analysis of DGFT data related to MEIS licenses issued during 2015 to 2020 revealed that exports of 'Vanilla extract and Oleoresins' were made against 111 SBs filed in Cochin Sea Port and 335 SBs in Cochin Air Port. Although the exported product (CTH 13021919) was not eligible for the MEIS benefits, duty credit scrips of ₹4.12 crore (147 licenses) and ₹5.08 crore (81 licenses) were issued by the JDGFT, Kochi and DC, CSEZ, Kochi respectively. The total ineligible MEIS credit of ₹9.20 crore (₹4.12 crore + ₹5.08 crore) sanctioned was subsequently utilised for payment of Customs duty on imports made through various ports, resulting in loss of Customs revenue.

The Customs Commissioner, Cochin while accepting the audit observation stated (January 2023) that RA-Cochin and DC-Kochi have been informed to cancel the licences. However, replies have not been received either from RA-Cochin or DC, CSEZ. Further progress was awaited (January 2025).

#### **4.5.2 Grant of MEIS incentives on ineligible export proceeds received in Indian Rupees**

Para 2.52 of the FTP 2015-20 stipulates that the export proceeds shall be realised in freely convertible currency to claim benefits under the Policy. Further, export proceeds against specific exports may also be realised in INR if it is through a freely

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<sup>77</sup> M/s. 'P Industries, M/s. 'PA' Ltd., M/s. 'PB' Pvt. Ltd and M/s. 'PC' Pvt. Ltd.

<sup>78</sup> M/s. 'PD' Naturals, M/s. 'PE' Extracts and M/s. 'PF' Pvt. Ltd.

convertible Vostro<sup>79</sup> account of a non-resident bank situated in any country other than a member country of Asian Clearing Union<sup>80</sup> (ACU) or Nepal or Bhutan.

Audit scrutiny of MEIS related DGFT data revealed that M/s. 'R' Industries Pvt. Ltd. and 110 exporters were irregularly granted MEIS incentives by RA, Mumbai for exports made (November 2018 to March 2020) to Nepal, Bhutan and member countries of ACU<sup>81</sup> against export proceeds realised in Indian Rupees. Since exports proceeds are remitted in Indian rupees for exports made to Nepal, Bhutan, and member countries of ACU, the Department's action of allowing MEIS incentive to these exporters was incorrect. This resulted in excess grant of MEIS scrip to the tune of ₹1.61 crore.

The Department while accepting the audit observation reported (December 2023) recovery of ₹76.72 lakh plus interest of ₹38.28 lakh from 68 exporters. Further progress in the remaining cases was awaited (January 2025).

The DGFT may review all the cases reported and furnish comments about systemic failure in allowing export incentives for ineligible export proceeds. Audit may be apprised of action taken to avoid similar recurrence in future.

#### 4.5.3 Excess MEIS incentives for export of Shawls, Mufflers and the like of man-made fibres

"Shawls, Mufflers and the like of Man-Made Fibres" are classifiable under CTH 62149060 and eligible for MEIS incentive at the rate of two *per cent* (up to December 2016; P.N. No. 02/2015-20 dated 1 April 2015), four *per cent* (January 2017 onwards; Public Notice No. 61/2015-20 dated 7 March 2017 as amended).

Analysis of DGFT data revealed that M/s. 'S' Impex and 31 others had exported (November 2015 to July 2019) "Shawls, Mufflers and the like of Man-Made Fibres". The RA-Mumbai misclassified the exported goods under 62141020, 62141030 and 62142010 as "Shawls, scarves (exceeding 60 cm) of Silk/ of Handloom" and 'Shawls of wool or fine animal hair' respectively and allowed MEIS incentive at the higher rate of three *per cent* and five *per cent* of FOB value instead of applicable rate of two/four *per cent*. This has resulted in grant of excess MEIS scrip to the extent of ₹63.99 lakh.

The Department reported recovery of ₹0.89 lakh and interest of ₹0.43 lakh from 11 importers, issued demand notices to 13 exporters. Reply in respect of remaining exporters and status of demand notices issued were awaited (January 2025).

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<sup>79</sup> A Vostro account is a bank account held by one bank on behalf of another bank, typically in a foreign currency. It allows respondent banks to provide services to their customers in foreign markets.

<sup>80</sup> Asian Clearing Union (ACU) is a payment arrangement whereby the participants settle payments for intra-regional transactions among the participating central banks on a net multilateral basis.

<sup>81</sup> Bangladesh, Sri Lanka, Myanmar

#### 4.5.4 Excess MEIS incentive granted on export of dress materials of Man-made Fibres

Export of “Dress Materials of man-made fibres” classifiable under CTH 63079013 are allowed MEIS incentive at the rate of two *per cent*.

Analysis of DGFT data revealed that M/s. ‘T’ Export and others, had claimed MEIS benefit for exports of ‘Dress Materials of Man-made Fibres’ made during the period July 2015 to July 2019 classifying them under CTH 63079019. The MEIS benefit was allowed by RA, Mumbai at the rate of five *per cent* and seven *per cent* of FOB value in 213 MEIS scrips. The items exported were dress materials of ‘Man-made fibres’ and merit classification under CTH 63079013 instead of classified under CTH 63079019<sup>82</sup>. Therefore, exporters were eligible for the MEIS benefits at the rate of zero/two/three *per cent* based on group of Countries to which it was exported on the Let Export Order (LEO) date<sup>83</sup> instead of five/seven *per cent* allowed. Misclassification and incorrect application of MEIS rate had resulted in grant of excess MEIS scrip involving duty credit of ₹54.06 lakh.

The Department accepting the audit observation reported (January 2024) recovery of ₹7.18 lakh plus interest of ₹4.92 lakh from 19 exporters and issued Demand notices to 47 exporters. Further progress was awaited (January 2025).

#### 4.6 Advance Authorization Scheme

##### 4.6.1 Irregular issue of Gem Replenishment authorization for time barred applications

Paragraph 4.59 (b) of HBP Vol. I (2015-20) stipulates that application for Gem Replenishment Authorisation shall be filed within six months following the month during which the export proceeds are realized. Further, as per Para 9.02 of HBP Vol.-I, whenever any application is received after expiry of the last date for submission of such application, the application may be considered after imposing a prescribed late cut on the entitlement as per the period of delay in submission of the application.

M/s. ‘U’ Exports, Jaipur filed (November 2018) two applications for Gem Replenishment authorizations for 18 Shipping Bills against which the export proceeds were realized in April 2016. Although the maximum two years period for filing the application, from the month of realization expired on 30 October 2018, the RA-Jaipur irregularly issued two Gem Replenishment authorizations, applications for which were time barred because filed on 26 November 2018. This

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<sup>82</sup> Dress material; others

<sup>83</sup> LEO is the final approval issued by Customs that allows goods to be shipped out of India.

resulted in irregular issue of two authorizations involving revenue of ₹2.48 crore. The RA-Jaipur reported recovery of ₹2.50 crore.

#### **4.6.2 Excess/Irregular issuance of Duty credit scrips for delayed and time barred applications**

M/s. 'V' Gems and 10 others were issued 11 Gem Replenishment licences (May to December 2019) worth ₹19.94 crore by the RA, Jaipur under Gems and Jewellery Scheme. The applications for claiming Replenishment licences were filled by the exporters during May to December 2019 after delay of stipulated periods. The Department granted 11 licences imposing late cut fee at the rate of 2 per cent (three licences), five *per cent* (six licences) and 10 *per cent* (two licences).

Audit scrutiny of the licences issued revealed that the late cut imposed by the RA, Jaipur does not commensurate with the delay in filing of the applications by the exporters. In three licences, where applications were filed with delay between six months to 12 months, late cut at the rate of two *per cent* instead of five *per cent* was applied. In another six licences filed with delay between 12 months to two years, late cut at the rate of five *per cent* was imposed instead of 10 per cent applicable. While, in remaining two licences, the Department irregularly issued REP licences, although, the applications were time barred as filed after expiry of maximum period of two years. This resulted in excess/irregular issuance of authorisations involving duty credit of ₹1.34 crore (₹28.27 lakh-nine licences plus ₹ 1.06 crore two licences) which was recoverable from the exporters.

The Department intimated recovery of ₹1.26 crore against nine licences. Further progress was awaited (January 2025).

#### **4.6.3 Non-fulfilment of export obligation by Advance Authorization (AA) holder**

Paragraph 4.22 of the FTP stipulates that the prescribed export obligation by an AA holder should be fulfilled in 18/24 months from the date of issue of Authorisation. The AA holder shall file online application for evidence of exports made within two months from the expiry of export obligation period. Further, HBP, Vol. I Paragraph 4.20 read with Para 4.44 stipulates that in case of failure to fulfil the prescribed export obligation within the time limit the authorisation holder shall be liable to pay Customs Duty foregone on the unutilized value of the imported material along with interest.

Audit scrutiny revealed that M/s. 'W' India Pvt. Ltd., Bengaluru made imports (February to June 2018) against Advance Authorisation through Inland Container Depot, Bengaluru involving duty foregone amount of ₹2.43 crore. However, the AA holder had failed to fulfil the prescribed export obligation even after lapse of validity period, nor had submitted evidence towards fulfilment of export obligation. Accordingly, the licensee was liable to pay customs duty of ₹2.43 crore plus applicable interest.

The Department intimated that the Bond enforcement order had been issued to recover the duty and interest and an alert had been entered in ICES System. Additionally, an amount of ₹1.35 lakh had been recovered through bank attachment. Further recovery particulars were awaited (January 2025).

However, MoF, CBIC stated (April 2024) that the importer was awaiting response from DGFT to their submission made. Accordingly, the recovery proceeding has been withheld because of Customs circular dated May 2017 to keep such matter in abeyance till it is decided by DGFT.

The CBIC reply is not tenable because in the instant case, the Norms Committee, DGFT Delhi had rejected (October 2019) the application of the importer for fixation of norms and asked RA-Bengaluru to take necessary action. As per the provisions of FTP and HBP Vol.I, Advance Authorisation issued on the basis of self-declared norms, an application has to be made to Norms Committee for fixation of norms. The applicant shall submit an undertaking to abide by the decision of Norms Committee. If the Norms Committee does not approve the norms, the Authorisation holder has to pay duty along with interest within thirty days from the date of hosting of Norms Committee decision on DGFT website. Further progress was awaited (January 2025).

#### **4.6.4 Irregular exemption against Advance Authorization from IGST**

Imports against AA are inter-alia exempted from IGST and compensation cess leviable under Sub-Section (7) and (9) respectively of Section 3 of the Customs Tariff Act 1975. This exemption was allowed subject to the condition that the EO shall be fulfilled by physical exports only (Customs Notification No. 18/2015 dated 1 April 2015 as amended by notification No. 79/2017 dated 13 October 2017).

RA, Surat issued (February 2020) Export Obligation Discharge Certificate (EODC) against two AAs valuing ₹2.97 crore allotted to M/s. 'X' Pvt. Limited. Audit scrutiny revealed that the EO was fulfilled by effecting deemed exports (supply to EOU), without paying exempted IGST on imports made under AA. As the EO was not fulfilled by physical exports, EODC granted without recovering IGST was irregular. This resulted in improper IGST exemption of ₹44.11 lakh which was recoverable.

RA, Surat intimated (September 2023) recovery of ₹35.83 lakh plus interest of ₹29.81 lakh. Further progress was awaited (January 2025).

### **4.7 Special Economic Zones/ Export Oriented Units**

#### **4.7.1 Short levy of BCD on 'Non-woven textiles' cleared in Domestic Tariff Area (DTA)**

As per Section 30 of the SEZ Act 2005, any goods removed from a SEZ to the Domestic Tariff Area (DTA) shall be chargeable to duties of Customs including anti-dumping, countervailing and safeguard duties under the Customs Tariff Act, 1975, where applicable, as leviable on such goods when imported.



Further, 'Non-woven' manmade filaments weighing more than 150 GSM (grams per square meter) are classifiable under CTH 56031400 and attract BCD at the rate of 20 *per cent* (Notification No.82/2017-Customs dated 27 October 2017 as amended vide Notification No. 53/2018-Customs dated 16 July, 2018). While, 'Non-woven' manmade filaments weighing more than 70 GSM but not more than 150 GSM are classifiable under CTH 56031300 and attract BCD at the 10 *per cent*.

Audit scrutiny of records of the Specified Officer, APSEZ Mundra, Gujarat for the period April 2018 to March 2021 revealed that M/s. 'Y' India Pvt. Ltd., Mundra, (SEZ UNIT II) had cleared various consignment of 'Non-Woven Geo Textiles' in DTA. The goods were mis-classified under CTH 56031300 and cleared levying BCD at the rate of 10 *per cent*. Audit noticed that the goods cleared in DTA were having GSM more than 150 and merit classification under CTH 56031400 which attract BCD at the rate of 20 *per cent* instead of 10 *per cent* applied. This resulted in short levy of duty to the tune of ₹59.26 lakh which was recoverable along with interest.

The Department reported recovery of entire short levy of duty amounting to ₹59.26 lakh plus interest of ₹14.61 lakh.

#### 4.7.2 Non-payment of duty on rejects/scrap exceeding SION Norms

Export Oriented Units (EOUs) are allowed to import/procure inputs from DTA without payment of duty subject to achievement of positive Net Foreign Exchange (NFE). Paragraph 6.06 (e) of HBP Vol.I, 2015-20 stipulates that consumption of inputs by the EOU shall be based on the Standard Input Output Norms (SION) and wastages allowed in SION. In case of wastage beyond the prescribed limits, the EOU is required to surrender the Customs Duty benefit availed at the time of import on such excess wastage.

M/s. 'Z' India Pvt. Ltd. an EOU was issued Letter of Permission (LOP) in April 2015 for manufacturing and exporting of 'Imitation Jewellery' under DC SEEPZ SEZ, Mumbai. The LOP was valid for the block year period of 2015-16 to 2019-20. As per prescribed SION (K30) for export of one Kg of finished output product, the EOU was allowed input of 1.20 Kg. Audit scrutiny revealed that the unit during January 2015 to November 2019 had generated rejects/ waste in excess of 20 *per cent* allowed under SION. However, the unit was allowed to destroy the rejects, after approval from Customs authorities without recovery of Customs duty on the excess wastage generated. This had resulted in short levy of duty of ₹42.97 lakh.

The Department reported recovery of ₹42.97 lakh plus interest of ₹26.29 lakh.

### 4.8 Duty Drawback Scheme

#### 4.8.1 Irregular payment of Drawback on export of Heparin and its salts

As per Duty Drawback schedule "Heparin and its Salts" are classifiable under Drawback Sl. No. 3001B and no duty drawback is allowed on export of its products.



M/s. 'AB' Pvt. Ltd. and 31 others exported (January to October 2021) 'Heparin Sodium Injections and Enoxaparin Sodium Injections' under 83 Shipping Bills through ACC-Export, New Delhi. The goods were mis-classified under drawback SL. No. 3004B instead of under SL. No. 3001B of the DBK Schedule and irregularly allowed duty drawback at the rate of 1.3 per cent of FOB value. Although, no Duty drawback was allowed on the export of these goods. Thus, mis-classification of the export product under incorrect drawback serial of the DBK Schedule resulted in irregular payment of drawback aggregating to ₹42 lakh.

The Department reported recovery of ₹12.81 lakh including interest from nine exporters, confirmed demand against four exporters (May 2023) and issued SCNs to 19 exporters. Further progress was awaited (January 2025).

#### **4.8.2 Excess payment of drawback on export of readymade Dupattas**

As per Drawback Schedule 'Readymade garment-Dupattas made of Manmade fibres' are classifiable under Drawback SL. No. 62140203B and eligible for drawback at the rate of three *per cent* of FOB with a cap of ₹36 per Kg.

M/s. 'AC' apparels and five others have exported 'Readymade Garment-Dupattas made of Manmade fibres' with aggregated exports worth ₹26.09 crore under 19 SBs through ICD, Tughlakabad (Export Commissionerate), New Delhi. The goods were misclassified under Drawback SL. No. 62140103B- as 'Shawls, scarves, mufflers, mantillas and veils, of manmade fibre' and incorrectly allowed drawback at the rate of 2.7 *per cent* of FOB value with a cap of ₹12 *per piece*.

Audit scrutiny revealed that the items exported merit classification under Drawback SL. No. 62140203B and eligible for drawback at the lower rate of three *per cent* of FOB with a cap of ₹36 *per Kg*. Misclassification and consequent application of incorrect drawback rate resulted in excess payment of drawback amounting to ₹37.74 lakh.

The Ministry reported (August 2023) that the demands have been confirmed (May 2022) for recovery of excess drawback paid totaling ₹37.74 lakh against all the six exporters. Further progress was awaited (January 2025).

#### **4.9 Conclusion**

The test audit of 20 Regional licensing authorities revealed instances of violations of prescribed rules and procedures framed to give effect to the provisions of the Foreign Trade Policy and Procedures regarding award of export incentives and fulfilment of export obligations. The cases pointed out in above paragraphs are illustrative based on audit's test check. Accordingly, similar violation of rules and procedures and errors of omission and commission by the officers responsible for issue and discharge of licenses could not be ruled out.

Government may review all the scrips sanctioned; besides those pointed out in audit and take steps to strengthen the monitoring mechanism through their IT platforms for plugging weaknesses in implementation of the prescribed rules and procedures.



## CHAPTER V

### Non- compliance to provisions of Customs Act, Customs Tariff Act and Tariff Notifications

**5.1** Goods imported in a vessel/aircraft into India attracts Customs duty and unless these are not meant for customs clearance at the port/airport of arrival and are intended for transit to another customs station or to any place outside India, detailed customs clearance formalities of the landed goods have to be followed by the importers. The importer is required to file a Bill of Entry (BE) giving details of the cargo, imported tariff classification and applicable duty, and other required information. Under self-assessment, BE can be filed electronically through ICEGATE into the Indian Customs Electronic Data Interchange (EDI) system, referred to as ICES. In the non-EDI system, the BE is filed manually by the importer along with a prescribed set of documents.

**5.2** The assessment function of the Customs authorities is to determine the duty liability, taking due note of any exemptions or benefits claimed under different export promotion schemes. They also have to check whether there are any restrictions or prohibitions on the goods imported and if they require any permission/license/permit etc., and if so, whether these requirements have been met. Assessment of duty essentially involves proper classification of the goods imported in the Customs tariff, having due regard to the rules of interpretations, chapter and sections notes etc., and determining the duty liability. It also involves correct determination of value where the goods are assessable on ad valorem basis.

**5.3** BsE filed electronically into ICES through a Customs House Service Centre or web based ICEGATE are transmitted by ICES to the Risk Management System (RMS). The RMS processes the data through a series of automated steps and results in an electronic assessment. This assessment determines whether the BE will be taken-up for action, i.e. manual appraisal by assessing officer or examination of goods, or both, or be cleared after payment of duty and Out of Charge directly, without any assessment and examination. Where necessary, RMS will provide instructions for the Appraising Officer, Examining Officer or the Out-of-Charge Officer. Additionally, Local Risk Management (LRM) committee may decide to put additional interventions in place at the local level for interdiction of imports. The system of clearances of imports through RMS based ICES and/ or assessment by Customs authorities should ensure that the conditions prescribed in the applicable notifications are fully met before exemptions could be granted.

#### **5.4 Limited access to Customs data**

Fully automated procedures of ICEGATE have facilitated comprehensive and paperless customs procedures. The Pan-India transaction data generated at

different Customs Commissionerates is available in electronic format in a centralised database maintained at the Directorate of Systems (DG/Systems) under CBIC.

Pan India data for the FY 18-19 onwards was not provided to Audit despite repeated requests. In the absence of Pan India transactional data, audit was conducted through CRA Module interface of ICES, which had its limitations. The limitations in the CRA module was also communicated to the CBIC. Accordingly, the conclusions in this chapter on compliance audit were based on limited audits carried out by physically visiting the 48 Commissionerates.

## **5.5 Audit Sample**

During 2021-22, a total of 1.93 crore BsE and 2.37 crore SBs were generated, out of which Jurisdictional Audit offices, based on local risks, selected a sample of 8.33 lakh BsE (5.14 *per cent*) and 4.83 lakh SBs (2.45 *per cent*) for physical audits. The samples were selected through local audits in the absence of Pan- India data, which is sub-optimal. Significant audit observations (88 cases) with revenue implication of ₹10 lakh or more noticed during test check of documents in the Customs Commissionerates are covered in this chapter. Minor observations were issued to the respective Commissionerates through Inspection Reports for corrective action.

The cases of non-compliance noticed during audit could be broadly categorized as follows:

- I. Misclassification of imports (**Paragraphs 5.6.1 to 5.6.5**).
- II. Incorrect application of notifications
  - a) Incorrect application of IGST Notification (**Paragraphs 5.7.1 to 5.7.5**).
  - b) Incorrect application of exemption notifications (**Paragraphs 5.7.6 to 5.7.7**).
- III. Other irregularities (**Paragraph 5.8.1**).

## **5.6 Misclassification of Imports**

Classification of commodities imported is governed under the provisions of the Customs Tariff Act 1975. Levy of applicable duties is dependent on classification applied to the imported commodity.

During test check of records, Audit noticed short levy of duty due to misclassification in 39 cases. These 39 cases of misclassification, each involving revenue implication of ₹10 lakh or more, having total revenue implication of ₹21.67 crore, have been covered in this chapter. Individual cases of misclassification of imports with money value less than ₹10 lakh have been reported to the local Commissionerates through field Inspection reports.

Out of the 39 cases of misclassification noticed in 18 Commissionerates, six cases involving total revenue implication of ₹9.47 crore are discussed in the

following paragraphs and remaining 33 cases involving total revenue implication of ₹12.20 crore are listed in the **Annexure 21**. The Department had accepted all 39 cases and reported recovery of ₹17.17 crore in 17 cases.

#### **5.6.1 Misclassification of 'Parts and Accessories of Motor Vehicles (including mopeds)' as "Parts of carriages for disabled persons/ Parts and accessories of bicycles".**

'Parts and Accessories of Motor Vehicles (including mopeds) are classifiable under Customs Tariff Heading (CTH) 871410 and attract BCD at the rate of 15 *per cent* (w.e.f. 02 February 2018).

M/s. 'BA' Motors Ltd. and 21 others imported 'Parts and accessories of Motorcycles/Electric scooter' during 2018-19 & 2019-20 under 123 BsE (AV- ₹29.02 crore) and 117 BsE (AV- ₹35.12 crore) respectively through Chennai Sea Customs. The imported goods were misclassified under CTH 87142090, 87149100, 87149290, 87149400 and 87149990 as 'Parts of carriages for disabled persons-Others'/Parts and accessories of bicycles and other cycles. The imported goods were cleared levying BCD at the 'Nil rate'/concessional rate of 10 *per cent* under exemption notifications {(i) Notification No.46/2011-Customs, Sl.No.1487 dated 1 June 2011 and (ii) No.50/2017-Customs, Sl. No.528/532 dated 30 June 2017}. Audit scrutiny revealed that the imported goods are ineligible for benefit of exemption notifications and merit application of BCD at the rate of 15 *per cent*. This had resulted in short levy of duty amounting to ₹5.11 crore.

On being pointed out, the Ministry of Finance, Department of Revenue reported (July 2024), recovery of ₹8.25 crore from 10 importers, confirmed demands against another 10 importers and issued SCN in two cases. Further progress was awaited (January 2025).

#### **5.6.2 Misclassification of "Mandarin (Kinnow) juice as 'Orange juice'**

Juice of any other single citrus fruit e.g. "Mandarin (Kinnow) Juice" is classifiable under CTH – 20093900 and attracts BCD at the rate of 50 *per cent* along with applicable duties.

M/s. 'BB' Beverages Limited and one other imported (February to November 2021) 15 consignments of "Mandarin (Kinnow) Juice/Mandarin Frozen concentrate" through JNCH Commissionerate. The imported goods were incorrectly classified under CTH 20091100/20091900 as 'Orange juice (frozen/ Other)' instead of under CTH 20093900- Juice of any other single citrus fruit. The Department cleared imported juice levying BCD at the rate of 35 *per cent* instead of applicable 50 *per cent*. Since Customs Tariff Act specifies different CTHs for Orange fruit and Mandarin fruit and accordingly their juices should also be classified under two different CTH and could not be treated as same. The misclassification resulted in short levy of Custom duties to the tune of ₹2.42 crore.

The Ministry intimated (May 2024) that a demand of ₹2.42 crore was confirmed against both the importers. Further progress was awaited (January 2025).

The Ministry in their ATN response to the similar observation raised in previous Audit Report (Customs) No. 30 of 2022 (Sub Para No.3.6.1) had accepted the observation and reportedly issued Show Cause Notices (SCNs) to the importers.

#### **5.6.3 Misclassification of “Altrazine Technical- a herbicide” as ‘Weedicides<sup>84</sup> and weed killing agent’**

Import of ‘Altrazine Technical’<sup>85</sup>- an herbicide’ classified under CTH 38089390, when imported from China attract Countervailing duty at the rate of 9.52 *per cent* of Cost, Insurance, freight (C.I.F) value. Further, IGST at the rate of 18 *per cent* is leviable on ‘Altrazine Technical’ imports.

M/s. ‘BC’ Chemicals (India) Pvt. Ltd., imported (December 2019) a consignment of ‘Altrazine Technical’ through JNCH, Mumbai Commissionerate. The goods were misclassified under CTH 38089350 as ‘Weedicides and weed killing agent’ and cleared without levying Countervailing duty. The misclassification resulted in non-levy of Countervailing duty and consequent IGST totaling ₹70.60 lakh.

The Ministry reported (October 2023) that a SCN had been issued to the importer. Further progress was awaited (January 2025).

#### **5.6.4 ‘Other machinery for cooking or heating (food Friers) misclassified as machinery for the preparation of fruits, nuts or vegetables**

‘Friers’ are classified under CTH 84198110 as ‘Other machinery for cooking or heating food’ and attract BCD at the rate of 10 *per cent*, while their parts are classified under CTH 84199090 which attract BCD at the rate of 7.5 *per cent*.

M/s. ‘BD’ Foods Ltd. and six others imported (July 2019 to February 2021) ‘Friers and their parts’ under 12 BsE through (JNCH), Zone-II. The imported items were misclassified under CTH 84386000/ 84388090 as ‘Other machinery for the preparation of fruits, nuts or vegetables not specified or included elsewhere in this chapter, for the industrial preparation or manufacture of food or drink’, and were cleared after levying concessional BCD at the rate of five *per cent*. Misclassification of the imported goods resulted in short levy of duty amounting to ₹46.68 lakh.

The Ministry reported (January 2024) issue of SCN to all seven importers. Further progress was awaited (January 2025).

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<sup>84</sup> Herbicide stops the growth of plants whereas weedicides kill weeds.

<sup>85</sup> Atrazine is a chlorinated herbicide of the triazine class. It is used to prevent pre-emergence broadleaf weeds in crops such as maize (corn), soybean and sugarcane and on turf, such as golf courses and residential lawns.

**5.6.5 ‘Specific automotive parts and accessories (Clutch/Steering/ Radiator/ Shock Absorber/Axle/Brake/ Bumper) misclassified as ‘Other parts of motor vehicles’**

Parts and accessories of the motor vehicles of headings 8701 to 8705 are classified under heading 8708 of the Customs Tariff. Customs Tariff heading 8708 covers specific motor vehicles parts namely ‘Parts of Bumpers / Brakes / Axles / Shock Absorbers / Radiators / Clutches / Steering are classified under CTH 8708 1090/ 87083000/ 87085000 / 87088000 / 87089100 / 87089300 / 87089400 respectively. These parts when imported attract BCD and IGST at the rate of 15 *per cent* and IGST at 28 *per cent*<sup>86</sup> respectively.

Audit noticed that misclassification of imports of Parts of Clutch/Steering/ Radiator/Shock absorber/Axle/Brake/Bumper through Chennai (Sea) Commissionerates had resulted in short levy of duty amounting to ₹76.99 lakh. The cases are discussed in the succeeding paragraphs.

**(A) ‘Specific automotive parts and accessories misclassified as ‘Other parts of motor vehicles’**

M/s. ‘BE’ India Ltd. and four others had imported 47 consignments of Automotive Parts of Clutch / Steering / Radiator / Shock Absorber / Axle/ Brake/ Bumper from Korea through Chennai (Sea) Commissionerates. The goods were classified under CTH 87089900 as ‘Other parts of motor vehicles’ and cleared at concessional rate of 5 *per cent* BCD under Notification No. 152/2009-Customs dated 31 December 2009 as amended.

Audit scrutiny revealed that concessional rate of BCD was not applicable on imported ‘parts and accessories of the motor vehicles of heading 8702 to 8704’ classified under CTH 87081090 / 8708 3000/ 5000 / 8000 / 9100 / 9300 / 9400. Accordingly, the imported items are leviable to BCD at the rate of 15 *per cent*. This resulted in short levy of duty amounting to ₹41.23 lakh.

The Department reported issue of SCN to four importers. Further progress was awaited (January 2025).

**(B) Parts of Clutch misclassified as ‘Other articles of iron or steel/ Rivets’**

“Clutches and parts thereof” classified under CTH 87089300 when imported attract BCD at 15 *per cent* and IGST at 28 *per cent*.

M/s. ‘BG’ Clutch Pvt. Ltd., Chennai imported “Parts of Clutch –Spacer (distanziale) and pin (barretta)” under 18 BsE with an aggregate AV of ₹1.97 crore through Chennai Sea Customs. The imported items were misclassified under CTH 73182990/ 73182300 as ‘Other articles of iron or steel/ Rivets’ and cleared levying BCD at the rate of 10 *per cent* {Sl. No.377 of Notification No. 50/2017-Customs dated 30 June

<sup>86</sup> Notification No.1/2017-IT (Rate), Schedule IV S.No.170 dated 28 June 2017.



2017 (treating them as Parts of General Use)} and IGST at 18 *per cent* {Notification No.1/2017-IT (Rate), Schedule III dated 28 June 2017}.

Audit scrutiny revealed that the imported items were parts of clutches and merit classification under CTH 87089300 as “Parts and accessories of Motor vehicles of heading 8702 to 8704” which attract BCD at the rate of 15 *per cent* and IGST at the rate of 28 *per cent*. Thus, mis-classification of imported items resulted in short levy of duty to the tune of ₹35.76 lakh.

The Ministry reported (July 2024) that a demand for ₹ 35.76 lakh has been confirmed and a penalty of ₹ 35.76 lakh was also imposed. The Ministry further stated that the importer had filed an appeal against the demand order.

### **5.7 Incorrect application of notifications**

Test check revealed improper application of various notifications in 43 cases, each involving revenue of ₹10 lakh or more. The total revenue implication was ₹20.35 crore. Individual cases of improper application of notifications of value less than ₹10 lakh have been reported to the local Commissionerates through field inspection reports. The Department accepted all 43 cases and intimated recovery of ₹12.21 crore in 37 cases which included interest. Seven cases (IGST notification-five cases and Other exemption notifications- two cases) involving revenue implication of ₹10.44 crore have been discussed in the succeeding paragraphs and the remaining 36 cases involving revenue implication of ₹9.91 crore are included in **Annexure 22** (17 cases) and **Annexure 23** (19 cases).

#### **Short levy/ Non- levy due to incorrect application of IGST Notification**

All imports shall be deemed as inter-State supplies as per IGST Act and accordingly IGST shall be levied on imports in addition to the applicable Custom duties. The IGST on goods imported into India shall be levied as per provisions of the Customs Tariff Act, 1975 on the value as determined under the said Act at the point when duties of Customs are levied.

IGST is levied under Section 3 (7) of the Customs Tariff Act, 1975 at the rates prescribed under Schedules of the Notification No.1/2017-Integrated Tax (Rate) dated 28 June, 2017 (as amended). The Central Government under sub-section (1) of Section 6 of the IGST Act, 2017, may, by notification exempt levy of IGST on imports.

##### **5.7.1 Short levy of IGST on imports of ‘Parts of Railway locomotives or rolling stock**

Parts of Railway or Tramway locomotives or Rolling stock are classifiable under CTH 8607 and attract IGST at the rate of 12 *per cent* w.e.f from 1<sup>st</sup> October 2019 {Schedule II, Sl. No. 205G of IGST Notification No. 01/2017- IT (Rate) dated 28 June 2017, as amended vide Notification No.14/2019- IT (Rate) dated 30 September 2019}. Prior to the amendment, IGST on these goods classifiable under CTH 8607 was leviable at

the rate 5 *per cent* (Schedule I, Sl. No. 241 of the IGST Notification dated 28 June 2017).

M/s. 'BH' Engineering Limited and five others imported (October 2019 to February 2020) 33 consignments of "Parts of railway/Rolling stock" under CTH 8607 through Commissionerate of Customs (Port), Kolkata. The Department correctly classified the imported goods but cleared them levying IGST at the pre revised rate of five *per cent* instead of applicable rate of 12 *per cent* after September 2019 amendment.

Audit noticed that out of imports under the 33 BsE, in 31 cases, five *per cent* IGST was levied, in terms of erstwhile Sl. No. 241 of Schedule I of the aforesaid notification. In two other cases, imported by M/s. 'BH' Engineering Ltd., IGST was levied at the rate of five *per cent* under Sl. No. 257 of Schedule I, which was completely inappropriate, as the entry is applicable for 'Assistive devices, rehabilitation aids and other goods for disabled, specified in List 3' appended to the Schedule. This resulted in short levy of duty amounting to ₹1.87 crore.

The Ministry accepting the observation, reported (July 2024) recoveries totalling ₹2.17 crore from six importers. However, recovery of interest from one importer (M/s BHA Ltd) was awaited (January 2025).

#### 5.7.2 Short levy of IGST on Aniline oil imports

'Aniline oil' falling under CTH 29214110 is leviable to IGST at the rate of 18 *per cent* {Schedule-III, Srl.No. 40 of notification No.1/2017-Integrated Taxes (Rate) dated 28 June 2017}.

M/s. 'BI' Industries Ltd. had imported two consignments of 'Aniline oil' (May 2020) under Advance authorization through Custom House Kandla. The Department accepted the declaration of the importer and cleared the goods levying IGST at the rate of five *per cent* (Sl. No.257, Schedule I of aforesaid Notification) which is applicable for "Assistive devices, rehabilitation aids and other goods for disabled, specified in List 3 appended to Schedule falling under chapter 90 or any other Chapter". Audit scrutiny revealed that the imported goods were not "Assistive devices, rehabilitation aids and other goods for disabled, specified in List 3, rather 'Aniline Oil' which attract IGST at the rate of 18 *per cent* under Schedule III, Sl. No.40 of the aforesaid notification. This resulted in short levy of duty amounting to ₹1.60 crore which was required to be recovered from the importer along with the applicable interest.

The Ministry while accepting the audit observation reported (May 2023) recovery of ₹1.60 crore plus interest of ₹47.22 lakh.

#### 5.7.3 Short levy of IGST on import of machines/spare parts

'Machines and Mechanical appliances having individual functions (Other than Composting Machines) and their parts, not specified or included elsewhere in Chapter 84 of the Customs Tariff are classified under CTH 8479 and attract IGST at

the rate of 18 *per cent* {Schedule III, Sl. No.366 of Notification No.01/2017-I.T(Rate) dated 28 June 2017}. However, Composting machines attract IGST at the rate of 12 *per cent*.

M/s. 'BJ' Limited and 17 others imported (May 2018 to March 2020) Machines/Spare parts of machines under 21 BsE through Chennai (Sea) Customs. The imported goods were cleared incorrectly levying IGST at the rate of 12 *per cent* under Sl. No.201/Schedule II of the aforesaid IGST notification applicable on 'Composting machines'. Audit noticed that the goods imported were not 'Composting machines' and attract IGST at the rate of 18 *per cent* instead of 12 *per cent* applied. The incorrect application of IGST rate had resulted in short levy of IGST amounting to ₹1.48 crore.

The Ministry reported recovery of ₹1.63 crore from 17 importers which included interest and confirmed demand against one importer. Further progress was awaited (January 2025).

#### 5.7.4 Short levy of IGST on import of 'Parts of Metro Rail /Rail Coach

Parts of railway or tramway locomotives or rolling stock are classified under CTH 8607. Import of goods under CTH 8607 attract IGST at the enhanced rate of 12 *per cent* w.e.f. from 1 October 2019 vide amendment Notification No. 14/ 2019 – I.T. (Rate) dated 30 September 2019.

M/s. 'BK' India Ltd. and others imported (after 1<sup>st</sup> October 2019) 24 consignments and 19 consignments of 'Parts of Metro Rail /Rail Coach through Chennai (Sea Customs) and Chennai (Air-Customs) respectively. The imported goods were cleared levying IGST at the old rate of five *per cent* instead of applicable revised rate of 12 *per cent* w.e.f. 1 October 2019. Although, the imports were of the period subsequent to 1 October 2019. The incorrect adoption of IGST rate resulted in a short levy of IGST totaling ₹1.06 crore.

The Chennai (Air-Customs) authorities reported recovery of ₹12.64 lakh which included interest in 19 consignments.

In respect of imports made through Chennai (Sea Customs), the Commissionerate had reported recovery of ₹46.24 lakh in 11 consignments and issued SCN in respect of 13 consignments. Further progress was awaited (January 2025).

#### 5.7.5 Short levy of IGST rate on import of 'Pumps for dispensing fuel or lubricants' and 'parts thereof'

'Pump for dispensing fuel or lubricants of the type used in filling Stations or Garage' and 'Fuel, lubricating or cooling medium pumps for internal combustion piston engines' are classified under CTH 841311 and 841330, respectively. These items attract IGST at 28 *per cent* {Sl. No.117; Schedule IV of Notification No.01/ 2017-I.Tax (Rate) dated 28 June 2017} and their parts attract IGST at the rate of 18 *per cent*.

M/s. 'BK' India Ltd. and 22 others imported (July 2019 to February 2020) "Injection pumps for diesel engines, fuel pumps, Buffer pumps, Trigger pumps and parts of pumps" etc. through Chennai Air Customs, Commissionerate. The goods were classified under sub heading 841311/ 841330/ 841340/ 841350/ 841360/ 841370 and 841391 but were assessed at lower rate of IGST (18 *per cent*) under Sch-III, Sl. No. 453 of the aforementioned notification.

Audit scrutiny revealed that Serial No. 453 of Schedule III is applicable to the goods which are not specified in Schedule I, II, IV, V or VI of the aforesaid notification. Although, the imported goods were specifically classified under CTH 841311/ 841330/841391 which merit levy of IGST at the rate of 28/18 *per cent* (Schedule IV/III ) applicable to Pumps and their parts respectively. This resulted in a short levy of IGST amounting to ₹49.77 lakh.

The Department, reported recovery of ₹19.76 lakh which included interest from eight importers. However, the Department in their supplementary reply accepted short levy of ₹23.51 lakh for importers except for M/s. 'BK' India Ltd. (7 BsE; ₹26.26 lakh). For imports made by M/s. 'BK' India Ltd. the Department not accepting the observation stated that the description of the imports does not match with those mentioned in the Audit observation.

The reply of the Department regarding M/s. 'BK' India Ltd. is not acceptable because the imported item was "Pump used to pump coolant oil " but were mis-classified under CTH 84137099 as 'Other pumps' instead of correct classification under CTH 84133030 which attract IGST at 28 *per cent* as against 18 *per cent* applied. This was communicated to the Department in July 2023 for re-examining the subject imports. Further progress was awaited (January 2025).

#### Incorrect application of exemption notifications

##### 5.7.6 Short Levy of BCD on import of motors for E-scooter, E-bike, E-scooty, E-rickshaw, Electric Bus due to incorrect grant of notification benefit

'Electric motors and generators (excluding generating sets) for use in motor vehicles falling under heading 8702, 8703, 8704 and 8711 are classified under CTH 8501 and attract BCD at the rate of 15 *per cent*. However, BCD is leviable at the concessional rate of 10 *per cent* under notification No. 50/2017 for 'electric motors' other than those suitable for use in motor vehicles falling under heading 8702, 8703, 8704 and 8711.

M/s. 'BL' India Pvt. Ltd. and 34 others imported (April 2021 to March 2022) 80 consignments of various types of motors for E-scooter, E-bike, E-scooty, E-rickshaw, Electric Bus through ICD, Tughlakabad. The imported items were correctly classified under CTH 85011019 to 85015390 and were cleared levying concessional BCD at the rate of 10 *per cent* under aforesaid notification.

Audit noticed that the imported goods were for use in E-scooter, E-bike, E-scooty, E-rickshaw, Electric Bus etc. falling under CTH 8703, 8704 & 8711 accordingly, excluded from the benefit of aforesaid exemption. Thus, incorrect grant of notification benefit resulted in short levy of duty amounting to ₹2.16 crore.

The Ministry reported (July 2024) recovery of ₹1.35 crore plus interest of ₹28.85 lakh from 20 importers and confirmed demands against the remaining 15 importers (January 2025).

**5.7.7 Short Levy of BCD on import of “Parts of Electrically operated Battery Haulers” due to incorrect grant of notification benefit**

Electrically operated vehicles classifiable under CTH 8702 or 8704: if imported as other than knocked down kit is leviable to BCD at the rate 25 *per cent* vide Sl. No. 525 (2) of the Notification No. 50/2017-Customs dated 30 June 2017 as amended vide Notification No. 03/2019-Customs dated 29 January 2019. While ‘Completely knocked down (CKD)’ vehicle attract concessional BCD at the rate 15 *per cent* under aforesaid notification.

Further, it was judicially held {Supreme Court in the case of Commissioner of Customs, New Delhi vs. Sony India-2008(231) ELT385 (SC)} that if the goods are imported by the same importer in different consignments, they still do not become a complete article since they are not presented together as a complete article in CKD condition.

M/s. ‘BM’ Pvt. Ltd. imported (April 2019) two consignments of “Parts of Electrically operated Battery Haulers” as part shipment but not as complete article in CKD condition under CTH 87049099 through Commissionerate of Customs (Port), Kolkata. The Department assessed the imported goods as ‘CKD’ and cleared after levying concessional BCD at the rate 15 *per cent* under aforesaid notification.

Audit scrutiny revealed that the goods were imported as part shipment but not as complete article in CKD condition as revealed from the declared weight of the goods in each shipment. Accordingly, in pursuance to Hon’ble Apex Court ruling mentioned above, imports of Parts of Battery haulers could not be considered as complete article imported in CKD condition. Accordingly, BCD was leviable at the rate of 25 *per cent* instead of 15 *per cent* applied.

The irregular application of concessional rate of BCD resulted in short levy of duty of ₹1.79 crores which was recoverable from the importer along with applicable interest.

The Ministry reported (May 2024) that a SCN has been issued (December 2023). Status of the adjudication was awaited (January 2025).

## 5.8 Other irregularities

As per Section 9A of the Customs Tariff Act, 1975, where any article is exported from any country to India at less than its normal value, then upon the import of such article into India, the Central Government may, by a notification, impose an Anti Dumping Duty (ADD). Accordingly, ADD was imposed on commodities like, Ceramic tableware/ Kitchenware, 'Toluene Di-isocyanate', 'Castings for Wind operated electricity generators', 'Purified Terephthalic Acid', 'Poly tetra fluoro ethylene products' when these were imported from specified countries.

Audit noticed 'Non/short levy of Anti-Dumping Duty (ADD) on imports made through three Commissionerates<sup>87</sup> in six cases involving revenue of ₹3.97 crore. The Ministry/Department accepted observations in five cases and reported recovery of ₹2.34 crore in three cases. The reply in remaining one case was awaited (January 2025). Out of these, three cases involving revenue of ₹3.60 crore are discussed in the succeeding paragraphs and remaining three cases are listed in **Annexure 24**.

### 5.8.1 Non/Short levy of Anti-Dumping Duty on imports

'Toluene Di-isocyanate (TDI)', 'Castings for Wind operated electricity generators' and 'Ceramic tableware/Kitchenware; other household articles and toilet Articles, Other than of Porcelain or China' originating in or exported from Saudi Arabia, China and Malaysia respectively and imported to India attract ADD at the prescribed rates.

M/s. 'BN' International Pvt Ltd. and four others imported (April 2019 to October 2021) the aforementioned goods under 26 BsE through JNCH, Mumbai Zone-II. The Department cleared the imported goods without/ short levying ADD at prescribed rates. The omission to levy the applicable ADD resulted in non/short levy aggregating to ₹3.60 crore.

The Ministry/department reported recovery of ₹2.21 crore plus interest from one importer (15 BsE) and issued SCNs/less charge notice to two other importers. Reply in remaining one case (Toluene Di-isocyanate-two importers) has not been received. Further progress was awaited (January 2025).

## 5.9 Conclusion

This Chapter highlights 88 cases of non-compliance to the extant notifications, applicable Customs Tariff Duties and Levies, noticed by Audit in the assessments of imports. The revenue of ₹45.99 crore was at risk due to either non/short levy of duty because of misclassification of imported items, incorrect application of exemption notifications or non-levy of other duties.

The Ministry/ Department has accepted 87 cases (₹42.65 crore) and has effected recovery of ₹31.72 crore (57 cases) at the time of finalization of this report.

<sup>87</sup> JNCH, Mumbai Zone-I, JNCH, Mumbai Zone II and ICD, Tughlakabad, Delhi

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Ministry's/ Department's response was awaited in one case at the time of finalization of the Report.

Though the Ministry has taken corrective action to recover duty in many cases, it may be pointed out that these are only a few illustrative cases. There is every possibility that such error of omission and commission, whether in RMS based assessments or manual assessments, may exist in many more cases.

It is pertinent to note that a large number of BsE examined by audit in test check had been assessed through the RMS, which indicated that the assessment rules mapped into the RMS to facilitate system-based assessments were inadequate. The process of mapping and updating of risk parameters in the RMS needs to be reviewed.

**New Delhi**

**Dated: 21 May 2025**



**(Subu R)**

**Director General (Customs)**

**Countersigned**



**(K. Sanjay Murthy)**

**New Delhi**

**Dated: 22 May 2025**

**Comptroller and Auditor General of India**

# **ANNEXURE**





## Annexure 1

Fact Sheet on Special Economic Zones As on 1 April 2022  
(Refer para 1.9)

Number of Formal approvals (As on 31 March 2022)	424		
Number of notified SEZs (As on 31 March 2022)	375 plus 7 Central Govt. plus 12 State/Pvt. SEZs		
Operational SEZs	268		
Units approved in SEZs (As on 31 March 2022)	5,576		
Investment	Investment	Incremental Investment	Total Investment
	(As on February 2006)		(As on 1 April 2022)
Central Government SEZs	₹2,279.20 Cr.	₹20,834.12 Cr.	₹23,113.32 Cr.
State/Pvt. SEZs set up before 2006	₹1,756.73 Cr.	₹12,396.07 Cr.	₹14,152.38 Cr.
SEZs notified under the Act	-	₹6,12,439.31 Cr.	₹6,12,439.31 Cr.
Total	₹4,035.93 Cr.	₹6,45,669.50.49 Cr.	₹6,49,705.01 Cr.
Employment	Employment	Incremental Employment	Total Employment
	(As on February 2006)		(As on 1 April 2022)
Central Government SEZs	1,22,236 persons	73,731 persons	1,95,967 persons
State/Pvt. SEZs set up before 2006	12,468 persons	97,437 persons	1,09,905 persons
SEZs notified under the Act	-	23,90,308 persons	23,90,308 persons
Total	1,34,704 persons	25,61,476 persons	26,96,180 persons
Export performance			
Year	Exports (₹ in crore)		Growth percentage
FY 18	5,81,033		11
FY 19	7,01,179		21
FY 20	7,96,669		14
FY 21	7,59,524		(-)4.66
FY 22	9,90,747		30

<b>Total Investment (₹ in crore)</b>	<b>FY 18</b>	<b>FY 19</b>	<b>FY 20</b>	<b>FY 21</b>	<b>FY 22</b>
Central Government SEZs	19,381	18,677	20,557	21,505	23,113
State/Pvt. SEZs set up before 2006	12,952	13,274	13,534	15,194	14,153
SEZs notified under the Act	4,59,979	4,75,693	5,37,644	5,80,800	6,12,439
<b>Total</b>	<b>4,92,312</b>	<b>5,07,644</b>	<b>5,71,735</b>	<b>6,17,499</b>	<b>6,49,705</b>
<b>Employment (in person)</b>	<b>FY 18</b>	<b>FY 19</b>	<b>FY 20</b>	<b>FY 21</b>	<b>FY 22</b>
Central Government SEZs	2,39,870	2,28,037	1,97,777	1,87,879	1,95,967
State/Pvt. SEZs set up before 2006	1,00,669	1,03,052	1,09,124	1,06,553	1,09,905
SEZs notified under the Act	16,56,071	17,29,966	19,31,404	20,63,704	23,90,308
<b>Total</b>	<b>19,96,610</b>	<b>20,61,055</b>	<b>22,38,305</b>	<b>23,58,136</b>	<b>26,96,180</b>

Source: Ministry of Commerce &amp; Industry letter no.K-43015(18)/2019-SEZ dated 11.05.2023

## Annexure 2

## Duty evasion cases detected by DRI (Scheme-wise)

(Refer para 1.13.1)

Sl. No	Scheme	FY 18	FY 19	FY 20	FY 21	FY 22
		No. of cases	No. of cases	No. of cases	No. of cases	No. of cases
		Duty	Duty	Duty	Duty	Duty
		(₹ in Cr.)	(₹ in Cr.)	(₹ in Cr.)	(₹ in Cr.)	(₹ in Cr.)
1	Misuse of End-Use & Other Notification conditions.	48	60	17	39	46
		117.5	539.47	117.90	691.29	765.94
2	Misuse of EPCG	37	32	77	45	28
		237.47	72.90	389.42	161.60	113.11
3	Undervaluation	346	80	45	34	37
		1,825.42	301.01	106.85	201.33	139.32
4	Mis-declaration	163	211	179	425	205
		184.72	791.89	349.45	1,419.30	1,626.02
5	Misuse of Drawback Scheme	146	21	83	53	47
		40.22	6.87	257.71	66.64	23.85
6	Misuse of EOU/EPZ/SEZ	3	3	2	5	3
		1.05	4.95	1.57	7.05	4.83
7	Misuse of DEEC/ Advance licence	79	178	70	34	26
		293.54	3433.40	335.73	220.28	434.12
8	Others	118	167	288	170	213
		364.74	1077.70	624.80	720.69	1,497.04
	Total	940	752	761	805	605
		3,064.65	6,228.19	2,183.43	3,488.19	4,604.24

Source: Ministry of Finance letter no. F.No.307/46/2022-PAC-CUS dated 05.06.2023 for FY 22

## Annexure 3: Audit coverage

(Refer para 3.4)

Sl. No.	Customs Commissionerates					No .of Commissionerates
	International Airport	Courier Terminal	Un-accompanied baggage	Foreign Post Office	Land Customs Station	
1	CC Ahmedabad & CC (Prev.) Jodhpur	CC Ahmedabad	CC Ahmedabad & CC (Prev.) Jodhpur	CC Ahmedabad & CC (Prev.) Jodhpur		2
2	CC ( ACC & Airport), Bengaluru	CC ( ACC & Airport), Bengaluru	CC ( ACC & Airport), Bengaluru	CC (City) (Bengaluru)		2
3	CC (Prev.) Amritsar)			CC, Ludhiana		2
4	CC (Air) Chennai-I & CC-Kochi	CC (Air) Chennai-I & CC-Kochi	CC (Air) Chennai-I & CC-Kochi	CC (Air) Chennai-I & CC-Kochi		2
5	CC, Airport, Delhi	CC (ACC export), Delhi	CC (ACC export), Delhi	CC (ACC export), Delhi		2
6	CC, Hyderabad & CC (Prev.) Bhubaneswar		CC, Hyderabad	CC, Hyderabad & CC (Prev.) Bhubaneswar		2
7	CC (ACC & Airport), Kolkata	CC (ACC & Airport), Kolkata	CC (ACC & Airport), Kolkata	CC (Ports) Kolkata	CC (Prev.) Kolkata -LCS Petrapole	3
					CC (Prev) Kolkata -LCS Ghojadhanga	
8	CC (Prev.) Lucknow and CC (Patna)		CC (Prev.) Lucknow	CC (Prev.) Lucknow		2
9	CC (Airport), Mumbai Zone-III	CC-APSC Mumbai Zone-III	NS-I, JNCH, Mumbai Zone-II,	CC (Import-II), Zone-I, Mumbai		4
	13	7	10	12	2	21
	Total units: 44		Total Commissionerates: 21			

## Annexure 4: Non production of records by the Customs Department

(Refer para 3.7)

Sl. No.	Name of Commissionerate	International Airport		Courier Terminal		Un-accompanied baggage		Foreign Post Office		Land Customs Station (LCS)	
		Unit	No. of Records	Unit	No. of Records	Unit	No. of Records	Unit	No. of Records	Unit	No. of Records
1	CC (ACC & Airport), Kolkata	1	90	1	35	0	0	0	0	0	0
2	CC, Kochi	1	12	1	150	0	0	1	125	0	0
3	CC(Airport), Mumbai	1	51	0	0	0	0	0	0	0	0
4	CC, Airport, Delhi	1	522	0	0	0	0	0	0	0	0
5	CC (Air) Chennai-I	1	39	0	0	0	0	1	364	0	0
6	CC Ahmedabad	1	24	0	0	1	95	1	541	0	0
7	CC (Preventive) Amritsar)	1	75	0	0	0	0	0	0	0	0
8	CC (Preventive) Kolkata	0	0	0	0	0	0	0	0	1	153
9	CC (Bengaluru City)	0	0	0	0	0	0	1	427	0	0
10	CC (Ports) Kolkata	0	0	0	0	0	0	1	53	0	0
11	CC (ACC), Delhi	0	0	0	0	0	0	1	45	0	0
12	CC, Ludhiana	0	0	0	0	0	0	1	70	0	0
	<b>Total</b>	<b>7</b>	<b>813</b>	<b>2</b>	<b>185</b>	<b>1</b>	<b>95</b>	<b>7</b>	<b>1,625</b>	<b>1</b>	<b>153</b>

## Annexure 5: Joint physical verification- International Courier Terminals

(Refer para 3.8.1.1)

Sl. No	Name of Courier Terminal	Import Consignments 2021-22	Exports Consignments 2021-22	No. of Custodians	X-ray Scanners at Import (Nos)	X-ray Scanners at Export (Nos)
1	ACC, Ahmedabad	2,265	3,00,887	2	1	1@
2	ACC, Bengaluru	13,17,554	24,58,593	3	9	5
3	ACC, Chennai	1,40,970	98,411	1	2	2
4	NCT, Delhi	23,42,584	76,62,868	4	4	6**
5	ACC, Kochi	2,30,119	Not furnished*	1	3	3
6	ACC, Kolkata	334	92	1	1***	2***
7	ICT, Mumbai	4,89,578	29,24,199	1	3	4

\* Not furnished, @ Out of order,

\*\*Four X-ray Machines –Two at cargo operator sheds plus two for Narcotics and explosives at DHL Export area,

\*\*\*Installed in 2021-22

## Annexure 6: Infrastructure available at thirteen International Airports

{Refer para 3.8.1.2 (i)}

Sl. No.	Infra Name of Airport	Inline Baggage X-Ray Scanning Machine for Checked in Baggage	X-Ray baggage scanning machine for Hand baggage and crossed Marked baggage at Arrival Hall/ Departure	Hand-held Metal detector	Door Frame Metal Detector	IT system available for Issuing electronic Baggage Receipt	Carat Meter <sup>88</sup>	Dog Squad	Body Scanning Machine	Lab for narcotics test	Drug Detection Kit
1	CSMIA, Mumbai	7	7	2	3	5	Nil	3	Nil	Nil	5
2	SVPIA, Ahmedabad	3	3	Nil	Nil	NA	1	1	Nil	Nil	Nil
3	JIA, Jaipur	NA	6	4	1	NA	NA	NA	NA	NA	NA
4	NSCBIA, Kolkata	NA	14	4	2	NA	1	NA	NA	NA	2
5	RGIA, Hyderabad	2	3	4	3	NA	NA	NA	Nil	NA	NA
6	BPIA, Bhuvneshwar	2	2	5	1	1	Nil	Nil	Nil	Nil	4
7	Anna IA, Chennai	NA	11	8	2	NA	NA	2	1	1	NA
8	Kochi Inttl. Airport	NA	15	8	5	1	Nil	2	Nil	NA	NA
9	SGRDJIA, Amritsar	NA	5	4	1	NA	Nil	Nil	Nil	Nil	Nil
10	KIA Bengaluru	6	5	6	4	2	NA	Nil	Nil	Nil	NA
11	CCSIA, Lucknow	2	1	2	2	1	NA	NA	NA	NA	NA
12	GIA, Gaya	1	1	6	1	NA	NA	NA	Nil	NA	NA
13	IGIA New Delhi	NA	6	NA	NA	NA	Nil	NA	Nil	NA	Nil
14	LCS Petrapole	NA	6	7	6	NA	NA	NA	NA	NA	NA
15	LCS Ghoadanga	NA	1	1	Nil	NA	NA	NA	Nil	Nil	Nil

<sup>88</sup> The Carat meter is a scientific instrument, which uses X-rays to give an exact reading of the purity of gold.

**Annexure 7: Joint inspection of FPOs conducted by Audit with Customs Department****{Refer para 3.8.1.4 (i)}**

Sl. No.	Name of FPO	Import/ Export availability at FPO	X-ray scanners at import (Nos)	X-ray scanners at export (Nos)	Narcotics detection kits	Carat meter/ handheld metal & narcotics detectors	Dog squad
1	Ahmedabad	Both Import and export	1	1	-	-	0
2	Bengaluru	Both Import and export	3	0	-	-	0
3	Bhubaneswar	Only export	NA	0	1 (Expired)	0	0
4	Ludhiana	Only export	NA	XMIS-not being used*	0	0	0
5	Chennai	Both Import and export	2	1	-	-	0
6	Delhi	Both Import and export	4 (1 un-serviceable)	4 (1 un-serviceable)	0	-	1
7	Hyderabad	Only export	NA	1 (Old XMIS)	0	-	-
8	Jaipur	Both import and export	NA	1	-	-	-
9	Kochi	Both Import and export	2	-	-	-	-
10	Kolkata	Both Import and export	3 (Used for both import and export and 2 X-ray machines were lying non-functional.		6 (all expired.)	-	-
11	Varanasi	Only export	NA	1 (machine was not working during 3.12.20 to 27.07.21)	-	-	-
12	Mumbai	Both Import and export	2	1	Yes	Non-functional carat meter	Airport dog squad is used intermittently.

## Annexure 8: Dwell time analysis at ICTs

(Refer Para 3.8.2.2)

Dwell time analysis 2019-20 (CBEXIII) at ICT, Mumbai		
Time taken to clear Bill	No. of Bills	Percentage of Bills
1 day	2,83,516	84.51
2-10 days	45,010	.42
11-30 days	5,031	1.50
30-100 days	1,681	0.48
100 and above	265	0.01
<b>Total</b>	<b>3,35,503</b>	
Dwell time analysis 2019-20 (CBEXIV) at ICT, Mumbai		
Time taken to clear Bill	No. of Bills	Percentage of bills
1 day	68,989	74.4
2-10 days	21,737	23.44
11-30 days	1,538	1.66
31- 100 days	292	0.31
Above 100 days	165	0.18
<b>Total</b>	<b>92,721</b>	
Dwell time analysis at ICT, Ahmedabad as per DG system data		
Time taken to clear Bill	No. of Bills	Percentage of bills
1 day	25298	36.79
2-10 days	41226	59.95
11-30 days	1810	2.63
30-100 days	25	0.04
100 and above	406	0.59
<b>Total</b>	<b>68765</b>	
Dwell time analysis at ICT, Bengaluru for 2019-20		
Time taken to clear Bill	No. of Bills	Percentage of Bills
0-1 days	9,57,857	74.34
2-10 days	3,09,740	24.04
11-30 days	17,304	1.34
31-100 days	2,841	0.22
101 and above	658	0.05
<b>Total</b>	<b>12,88,400</b>	
Dwell time analysis at ICT, Delhi as per DG system data		
Time taken to clear Bill	No. of Bills	Percentage of Bills
0-1 days	10,902	19.54
2-10 days	39,284	70.40
11-473 days	5,615	10.06
<b>Total</b>	<b>55,801</b>	



**Annexure 9: Duty paid by international arrivals at Major Airports****(Refer Para 3.8.3.1)**

Sl. No.	Name of International Airport	Year	No of International flights arrived	No of passengers arrived	No of voluntarily declarations (red channel)	No of declarations made on interception by the Customs (Green Channel)	No of cases where assessment made, and duty levied	Percentage of passengers paid duty
1	SVPIA, Ahmedabad	2019-20	15,387	23,21,304	0	0	6,403	0.28
2	KIA Bengaluru	2019-20	13,967	26,11,616	NIL	5,088	5,088	0.19
3	AIA, Chennai	2019-20	17,779	30,59,879	34,648	199	72,684	2.38
4	IGIA Delhi	2019-20	1,09,869	1,78,31,000	7,335	NA	7,335	0.04
5	RGIA Hyderabad	2019-20	12,923	20,48,291	6,918	173	7,091	0.35
6	KIA, Kochi	2019-20	13,933	22,50,589	24,556	100	161	1.09
7	NSCBIA, Kolkata	2019-20	12,244	16,34,679	1,947	Nil	NA	0.11
8	CSMIA, Mumbai	2019-20	40,353	5737182	1432	504	2738	0.03

**Annexure 10: Details of Issuance of Baggage Receipt (Manual/eBR Module)****(Refer Para 3.8.3.2)**

Sl. No.	Airport	Year	Total baggage Declarations filed	Manual issuance of baggage receipt	Manual BRs issued %age	Baggage receipt issued through eBR Module	Manual Receipt uploaded in eBR module	Total Baggage Declarations in eBR	Declarations pending for uploading in eBR.
1	CSMIA, Mumbai	2019-20	1,936	950	49	986	3	989	947
		2020-21	558	385	68	173	234	407	151
		2021-22	635	..	37	2130	608	2738	635
2	JIA, Jaipur	Sample Data	300	..	..	..	..	4	296
3	SVPIA, Ahmedabad	2019-20	..	6,396	100	..	12	..	6,384
		2020-21	..	2,413	100	..	780	..	1,633
		2021-22	..	3,819	100	..	1,315	..	2,504
4	BPIA Bhubaneshwar	Sept 2019 to July 2020	53	11	20	42	0	42	11
5	Kochi International Airport	Sample Data	51	51	100	0	51	51	0
6	CCSIA, Lucknow	2019-20	545	545	100	0	0	..	545
		2020-21	338	305	90	33	0	..	305
		2021-22	569	403	70	166	63	..	340
7	GIA, Gaya	2019-20	133	67	50	66	0	0	..
		2020-21	96	96	100	0	0	0	96
		2021-22	3	3	100	0	0	0	3
8	KIA Bengaluru	2019-20	3,879	3,621	93	258	0	258	1,354
		2020-21	1,685	1,685	100	0	0	0	1,685
		2021-22	2,778	2,137	77	641	0	641	2,137
9	NSCBIA, Kolkata	Mar-22	133	...	..	..	..	110	23

**Annexure 11: Short levy on baggage- other than Gold**

(Refer Para 3.8.3.10)

Sl. No.	Name of Airport	DDR No.	Date	Article Description	Assessable Value (₹ in lakh)	Duty Levied (₹ in lakh)	Duty Leviable (₹ in lakh)	Short Levied (₹ in lakh)
1	CSMIA, Mumbai	861952 861953 861963	10.03.2022 10.03.2022 14.03.2022	Arms & Ammunition	16.01	8.01	8.81	0.80
2	CSMIA, Mumbai	859515	14.09.2021	Whisky	0.03	0.03	0.06	0.03
3	Amritsar (SGRDJIA)	2343	07.03.2021	three iPhones	2.33	0.13	0.45	0.32
4	Lucknow	12 cases	Sept. 2021	Old and used LED TV	2.01	0.28	0.78	0.50
	<b>Total</b>	<b>17 cases</b>						<b>1.65</b>

**Annexure 12: Incorrect allowance of multiple TR benefits to the same passenger within three year period**

(Refer Para 3.8.4.2)

Location	BDs	Total No. of Passengers	Subject	Tax effect (₹ in lakh)	Out of total BDs
UB Centre JNCH, Mumbai	33	12 passengers	Same port multiple TRs from same passenger	9.14	13,695
UB Centre JNCH, Mumbai	23	11 Passengers	Different port & multiple TRs from same passenger	13.33	5,555
UB centre, ACC, Bengaluru	4	2 passengers	Same port double TRs from same passenger		
DG system data analysis	26	13 passengers	Different port & multiple TRs	18.75	8,081
<b>Total</b>	<b>86</b>	<b>39</b>		<b>41.22</b>	<b>27,331</b>

**Annexure 13: Short levy in respect of gifts and personal goods imported at FPOs**

(Refer Para 3.8.5.6)

Location	Total imports	Nature of bill	Period	Short levy	Tax Effect (₹ in lakh)
FPO, NCH, Mumbai Zone-I	300 sample	Parcels and Packets(Personal goods)	April 2019 to March 2022	8 Parcels +One packet	2.85
FPO,Kochi	300 sample	Import bills	Jan-20	21 bills	0.30
FPO Bengaluru	300 sample	Import bills	April 2019 to March 2022	23 bills	6.56
FPO Kolkata	300 sample	Import bills (gifts)	April 2019 to March 2022	5	0
<b>Sub Total</b>				<b>58 bills</b>	<b>9.71</b>
FPO , NCH, Mumbai Zone-I	66,945 Parcels+ 48,358 packets (Data analysis)	Parcels and Packets (Personal goods)	April 2019 to March 2022	233 Parcels+76 packet	7.67
FPO, NCH, Mumbai Zone-I	66,945 Parcels+ 48,358 packets (Data analysis)	Parcels and Packets (Gifts)	April 2019 to March 2022	115 Parcel + 109 packet	6.50
<b>Sub Total</b>	(1,15,303 bills)			<b>533 bills</b>	<b>14.17</b>

**Annexure 14: Incorrect extension of notifications benefit**

(Refer Para 3.9.1)

SI No.	Brief description	Amount objected (₹ in lakh)	No. of BsE	Commissionerate
1	Import of Ethernet switches under Sl.No.20 of Notification No.57/2017-Customs dated 30th June 2017, though goods are classifiable under CTH 85176290 and are assessed to BCD at the rate of 20 <i>per cent</i> .	34.83	52	NCT, ACC (Export), New Delhi
2	Incorrect exemption of BCD under Notification No.24/2005-Customs dated 01st March 2005. Imported goods are required for launch vehicle, satellites, and payloads and liable to BCD at 5 <i>per cent</i> under Sl.No.539A of Notification No. 05/2018-Customs dated 25 October 2018.	23.75	2	ICT, APSC Commissionerate, Zone-III, Mumbai
3	Allowed concessional rate of 10 <i>per cent</i> BCD to Earphones, headphones under Notification No.22/2018 -Customs dated 2.02.2018 at Sl.No.18 instead of applicable BCD at 15 <i>per cent</i> .	2.74	113	ICT,APSC Commissionerate, Zone-III, Mumbai
	<b>Total</b>	<b>61.32</b>		

**Annexure 15: Status of unclaimed/uncleared goods as on 31 March 2022 at ICTs**

(Refer Para 3.10.3.1)

Sl. No.	Name of the ICT	Name of the Custodian	Number of goods pending as on 31.03.2022	Remarks
1	Mumbai	EICI/MIAL	1,19,794	pertaining to 2010 to 2022
2	Delhi	UPS	6,100	pertaining to years 2019 to 2022
	Delhi	EICI	16,995	pertaining to years 2019 to 2022
3	Bengaluru	DHL/EICI/Fedex	77,833	16,552 awaiting disposal orders for more than one year
4	Ahmedabad	GSEC Ltd	Not furnished	Goods were lying, but no information furnished to Audit
5	Chennai	Airport Authority of India Cargo Logistics and Allied Services	Not furnished	No information furnished to Audit
	<b>Total</b>		<b>2,20,722</b>	

**Annexure No. 16: ATA Carnet status at CSMIA, Mumbai**

(Refer Para 3.12.4B)

Sr. No.	Register No.	Carnet No.	Imports Date	Final date of Re- Exportation	Customs Duty (in ₹)
1	200	BR 20206600005	29.01.2020	28.03.2020	34,913
2	75	IL 61955/19	28.08.2019	25.08.2019	3,51,310
3	80	US 89/19-64421	21.06.2019	20.08.2019	3,46,980
4	87	IL61726/19	22.07.2019	21.09.2019	53,708
5	99	CN12/2019-0247	30.08.2019	29.10.2019	15,400
6	104	HK108647	07.09.2019	06.11.2019	18,293
7	173	FR XV-1/1911844	02.11.2019	01.01.2020	3,27,207
8	178	JP/H19 05288	15.10.2019	14.12.2019	41,272
9	179	JP/H19 05212	15.10.2019	14.12.2019	61,600
10	192	CN18/2020-0019	17.01.2020	16.03.2020	9,610
11	216	DE/9321 KN	06.11.2019	05.01.2020	1,33,264
12	226	GB/LO/02/19/04497	18.11.2019	17.01.2020	2,76,057
13	264	BG/190250	27.10.2019	26.12.2019	4,63,501
14	273	DE/140935/20H	29.01.2020	28.03.2020	1,54,907
15	279	IL/H/14926/20	05.2.2020	04.04.2020	2,704
16	283	DE/141142/20M	09.02.2020	08.04.2020	15,38,762
17	303	DE14241321M	24.05.2021	23.07.2021	3,86,181
18	301	IL H 15222/21	04.04.2021	04.05.2021	84,786
19	298	DE/00057020B	05.12.2020	03.02.2021	3,38,459
20	92	DE0910L	15.08.2019	14.10.2019	2,31,925
21	145	US 89/1967318	28.09.2019	27.11.2019	1,26,532
22	170	JP/H19 05336	15.10.2019	14.12.2019	1,20,633
23	70	IL H/14564/19	12.08.2019	11.10.2019	22,152

## Annexure No. 16: ATA Carnet status at CSMIA, Mumbai

(Refer Para 3.12.4B)

Sr. No.	Register No.	Carnet No.	Imports Date	Final date of Re- Exportation	Customs Duty (in ₹)
24	259	GB/LI/20/10305	01.03.2020	30.04.2020	4,79,233
25	155	GB/LO 05/19/07628	10.10.2019	10.12.2019	16,19,321
26	308	IL 64244/21	28.10.2021	27.12.2021	12,84,052
27	310	DE 511991 LB	21.10.2021	20.12.2021	7,14,722
28	312	GB/LO/02/21/04485	20.10.2021	19.12.2021	7,38,137
29	315	DE 8381 RV	04.10.2021	03.11.2021	1,30,587
				<b>Total</b>	<b>1,01,06,207</b>

## Annexure 17: Non-compliance to provisions of Export Promotion Schemes

(Refer para 4.2 and 4.4)

S.No.	DAP No.	Subject	Amount Objected	Amount Accepted	Amount Recovered	Commissionerate/ RA	Commodity
			(₹ In lakh)				
1	1	Short levy of customs duty on DTA sale due to availing of ineligible exemption	13.12	13.12	17.13	SEZ, Kochi	Tinned tune fish
2	15	Incorrect grant of SEIS scrips due to non-deduction of service tax/IGST and expenditure in foreign currency from gross foreign exchange value	12.74	12.74	15.92	RA, Kolkata	Hotel & Restaurant services
3	34	Incorrect grant of SEIS duty credit for ineligible services	10.25	10.25	10.92	MEPZ-SEZ, Tambaram, Chennai	Engineering services
4	37	Grant of excess SEIS scrip due to application of incorrect exchange rates	23.65	23.65	33.01	RA, Mumbai	
5	47	Irregular reward of duty credit scrip under Service Exports from India Scheme	11.39	11.39	11.39	RA, Jaipur	Travel Agencies & Tour Operator Services
6	57	Excess grant of TED refund	12.68	12.68	17.58	RA, Mumbai	
7	62	Irregular payment of Drawback due to mis-classification	26.49	26.49		ACC (Export) New Delhi	Heparin sodium injections and Enoxaparin Sodium Injections
8	67	Excess grant of MEIS scrip due to misclassification of PP/HDPE Ropes	34.02	32.19	4.33	RA, Mumbai	PP/HDPE ropes
9	119	Short/non levy of late cut	13.85	13.85		RA, Mumbai	Gems Replenishment
		Total	158.19	156.36	110.28		

## Annexure 18: Sample Selection

(Refer para 4.3.10.1)

Sl. No	No. of Commissionerates selected		No. of Port	No. of EOUs existing	No. of EOUs received refund of IGST during 09.10.2018 to 31.03.2022	No. of EOUs finally selected adopting Stratified Random sampling	No. of AA holders as per import data (4 years)	No. of AAs received refund of IGST during 09.10.2018 to 31.03.2022	No. of AA holders selected adopting Stratified Random sampling
1	3	1. Ahmedabad (Comm.), 2. Mundra (Comm.) & 3. Jodhpur (Comm)	16 ports	482	221	61	6,706	1,640	45
2	2	1. Hyderabad ( ACC-Shamshabad, ICD - Sanathnagar, ICD-Thimmapur) 2. Bhubaneswar (Comm.- Prev. ICD - Jharsuguda)	4 ports	115	25	0	205	16	10
3	2	1. Kolkata (Port) 2. Kolkata (Airport)	2 ports	32	12	12	224	99	25
4	3	1. ICD- Tughlakabad 2. Delhi Air Cargo 3. ACC DABH, Indore	9 ports	9	0	0	1,193	926	48
5	3	1. Chennai (Sea) 2. Chennai (Air) 3. Cochin (Sea)	4 ports	361	91	80	692	452	63
6	2	1. JNCH, Zone-II 2. Export Comm. ACC Zone III	2 ports	259	91	50	5,605	1,988	31
7	1	1. Bengaluru (Air Cargo)	1 Port	26	26	25	58	58	15
8	3	1. Comm.(Prev.) Lucknow 2. Comm.-Noida 3. Comm. (Prev.) Patna	3 ports	55	10	10	4,866	4,285	45
9	2	1. Comm.-Ludhiana 2. Comm.-Amritsar	9 Ports	21	3	3	120	71	16
	<b>21</b>		<b>50 Ports</b>	<b>1,360</b>	<b>479</b>	<b>241</b>	<b>19,669</b>	<b>9,535</b>	<b>298</b>
						<b>50%</b>			<b>3%</b>

**Annexure 19: IGST refund paid irregularly to EOUs during 09.10.2018 to 31.03.2022**

{Refer para 4.3.10(i)}

(₹ in crore)

Name of Commissionerate	No. of EOUs	No. of BsE filed	Aggregate Assessable Value	No. of BsE in which zero duty paid	No. of BsE in which IGST paid on imports	IGST paid	No. of SBs filed	No of SBs filed with payment of IGST	IGST refunds (09.10.2018 to 31.03.2022)	No. of SB verified in SSOID/ data	No. of Ineligible SBs	Ineligible IGST refunds made
Ahmedabad	14	3,410	1,808.56	2,540	870	36.43	2,009	2,009	46	465	396	10.41
Mundra	4	392	253.42	392	0	0	82	82	3.48	82	71	1.79
Jodhpur	11	3,921	2,587.93	3,010	911	22.97	1,104	1,104	31.82	453	453	19.29
Kolkata Sea and Air	5	2,927	94.66	2,920	7	0.02	716	716	33.82	716	383	22.41
Chennai Sea	29	6,382	740.30	6,044	338	6.80	2,729	2,729	127.15	1,383	1,290	82.88
Chennai Air	13	921	230.39	774	147	5.94	447	447	16.58	315	139	6.97
Kochi	18	3,000	1,305.91	2,362	638	22.48	12,032	12,032	168.34	1,107	1,107	44.10
JNCH, Mumbai	11	6,163	3,797.97	6,024	139	48.57	7,487	7,487	457.72	667	486	69.66
ACC, Mumbai	11	9,114	4,939.52	8,919	195	20.42	3,445	3,445	260.74	518	339	16.64
ACC, Bengaluru	22	16,609	4,240.65	15,009	1,600	79.19	975	975	22.50	975	975	22.50
Noida	6	2,183	5,852.89	2,179	4	0.0006	197	197	20.12	197	197	20.12
Lucknow	1	30	10.53	30	0	0	1	1	0.11	1	1	0.11
Ludhiana	3	848	158.48	244	604	21.53	851	851	49.68	152	152	16.23
<b>TOTAL</b>	<b>148</b>	<b>55,900</b>	<b>26,021.21</b>	<b>50,447</b>	<b>5,453</b>	<b>264.35</b>	<b>32,075</b>	<b>32,075</b>	<b>1,238.06</b>	<b>7,031</b>	<b>5,989</b>	<b>333.11</b>
										<b>21%</b>		

## Annexure 20: IGST refund paid irregularly to AAs during 09.10.2018 to 31.03.2022

{Refer para 4.3.10(ii)}

(₹ in crore)

Sl. No	Commissionerate	No. of AAs	No. of BsE filed	Aggregate AV	No. of BsE in which zero duty paid	No. of BsE in which IGST paid on imports	IGST amount paid	No. of SBs filed	No of SBs filed with payment of IGST	IGST Sanctioned as refunds	No. of Shipping Bill verified in SSOID/ data	No. of Ineligible Shipping Bills	Ineligible IGST refunds made
1	Ahmedabad	4	684	549.34	666	18	6.31	1,788	1,788	133.48	281	46	1.83
2	Mundra	4	200	294.28	119	81	9.87	650	650	47.75	280	37	5.70
3	Jodhpur	10	268	194.77	101	167	4.33	260	260	6.46	201	201	4.23
4	Hyderabad Air & Bhubaneswar (Prev.)	10	413	163.04	412	1	0.00006	2,088	2,088	84.40	465	68	4.10
5	Kolkata Sea & Air	12	1,784	9,485.88	1743	41	19.94	295	295	90.25	295	295	90.25
6	ICD, Tuglakabad	7	200	61.05	199	1	0.11	523	523	22.46	309	163	5.38
7	Delhi Air	6	269	37.13	263	6	0.08	881	881	14.58	399	54	0.71
8	Gwalior(Br)	5	45	19.12	38	7	0.11	367	367	12.57	197	180	8.23
9	Chennai Sea	5	1,812	133.29	183	1,629	20.33	146	146	18.11	146	44	5.48
10	Chennai Air	7	172	27.41	80	92	2.09	827	827	54.11	487	77	5.40
11	Cochin	15	766	511.60	741	25	1.15	920	920	15.40	314	314	12.40
12	JNCH, Mumbai	16	2,456	1,098.87	2,447	9	0.37	2,061	2,061	303.45	539	331	118.91
13	ACC, Mumbai	10	4,124	2,775.44	2,101	2,023	104.91	844	844	100.89	436	284	67.50
14	ACC, Bengaluru	14	4,326	1,191.63	3,231	1,095	46.78	1381	1,381	49.30	1381	1381	49.30
15	Noida	3	65	87.21	63	2	0.13	5	5	0.23	5	5	0.23
16	Lucknow	7	161	120.00	159	2	0.19	81	81	10.30	81	81	10.30
17	Patna	1	4	3.04	3	1	0.00	1	1	0.55	1	1	0.55
18	Ludhiana	6	7,282	3,132.68	2,549	4,733	363.03	1,228	1,228	44.69	230	168	12.46
	<b>TOTAL</b>	<b>142</b>	<b>25,031</b>	<b>19,885.78</b>	<b>15,098</b>	<b>9,933</b>	<b>579.73</b>	<b>14,346</b>	<b>14,346</b>	<b>1,008.98</b>	<b>6,047</b>	<b>3730</b>	<b>402.96</b>
											42%		



## Annexure 21: Misclassification of imports

(Refer para 5.6)

Sl. No.	DAP No.	Subject	Amount Objected	Amount Accepted	Amount Recovered	Commissionerate	Commodity
			(₹ In lakh)				
1	4	Short levy of duty due to misclassification	26.58			NCH, Mumbai	Food Processing Equipment
2	6	Short levy of customs duty due to misclassification	9.61	9.61	11.81	Customs (Preventive), Kochi	Networking Equipment
3	7	Short levy of duty and interest due to misclassification	11.60	11.60		Customs (Airport), Kolkata	Surgical microscope
4	13	Short levy of duty due to misclassification	14.85	4.89	4.89	Kolkata (Port)	Bamboo sticks
5	14	Short levy of customs duty due to misclassification	12.17	12.17	0.80	SEZ, Kochi	Cable assembly
6	17	Short levy of duty due to misclassification	23.75	23.75		ICD, Patparganj, New Delhi	Parts of Exhaust Gas Recirculation
7	18	Short levy of customs duty due to misclassification	11.58	11.58	13.90	ACC, Shamshabad, Hyderabad	Positive mixture like P130 cathode
8	19	Short levy of customs duty due to misclassification	10.56	10.56	11.62	ICD, Sanathnagar, Hyderabad	Aluminium Pipes
9	25	Short levy of IGST due to misclassification	11.13	11.13		Chennai (Air)	Surgical/Ophthalmic/ Microscopes & Parts thereof
10	26	Short levy of duty due to misclassification	17.28	17.28	22.16	Kolkata (Port)	Oxygen plant with allied accessories. Electric spare parts for Blast Furnace
11	29	Short levy of IGST due to misclassification	32.45	30.95	30.95	Chennai (Sea)	New and re-treaded Aircraft Tyres
12	46	Short levy of duty due to misclassification	45.76	45.76		JNCH, NS-V, Mumbai	“Ice cream making machinery”
13	54	Short levy of duty due to misclassification	25.07	25.07		JNCH, Mumbai	Outboard Engines
14	56	Short levy of duty due to misclassification	19.43	19.43	31.85	NCH, Mumbai Zone-I	Training Missile
15	59	Short levy of duty due to misclassification	11.70	11.70		ICD, Tughlakabad, Delhi	PVC Worm bag & PVC Hotwater bag
16	76	Short levy of duty due to misclassification	520.00	520.00	659.00	ICD Tuglakabad	IP Network Telephone/IP Desk phone/SIP Phone
17	80	Short levy of duty due to misclassification	11.34	11.34	13.02	ACC, Import, New Delhi	Gyroscopic Horizon/Altitude Gyro
18	82	Short levy of duty due to misclassification	28.42	28.42		ACC, NCH (Import), Delhi	Vitamin AD3 (Feed grade)

## Annexure 21: Misclassification of imports

(Refer para 5.6)

Sl. No.	DAP No.	Subject	Amount Objected	Amount Accepted	Amount Recovered	Commissionerate	Commodity
			(₹ In lakh)				
19	88	Short levy of duty due to misclassification	78.50	78.50		ACC Bengaluru	Data transmission Gateways equipment
20	89	Short levy of duty due to misclassification	40.54	40.54		ACC Bengaluru	Voice Over Internet Protocol (VOIP) equipment
21	90	Short levy of duty due to misclassification	10.05			ACC, Bengaluru	Aqua resin Dill/Sweet Pickle Spice
22	91	Short levy of duty due to misclassification	17.32	52.83		ACC, Bengaluru	Silver tips/ Silver strips for MCCB electrical use
23	94	Short levy of duty due to misclassification	32.63	32.63		ACC Delhi	“Desktop Call Station and Handset”
24	95	Short levy of duty due to misclassification	22.94	22.94		ICD Tughlakabad, Delhi	Helium leak test machine for condenser
25	96	Short levy of duty due to misclassification	14.46	14.46	9.09	ICD Tughlakabad, Delhi	Parts of Router/EPON Networking unit/products)
26	97	Short levy of duty due to misclassification	17.20	17.20		Kolkata (Port)	Oleic acid methyl esters
27	100	Short levy of duty due to misclassification	10.12	10.12	11.92	ICD, Tughlakabad, Delhi	Ribbon tape/woven tape made of Polyester/Nylon
28	101	Short levy of duty due to misclassification	23.57	23.57	26.17	ICD Ballabhgarh	PU Belt
29	102	Short levy of customs duty due to misclassification	8.98	8.98	10.43	ACC, Shamshabad, Hyderabad	Mobile/Thermal printers
30	104	Short levy of duty due to misclassification of goods	28.81	20.65	20.65	ICD Tughlakabad, Delhi	PU Belts
31	107	Incorrect availment of duty exemption and misclassification	24.06	24.06		Chennai (Sea)	Tube Brake Pipe Assembly
32	114	Short levy of duty due to misclassification	18.08	18.08		Chennai (Sea)	Butter flavour
33	116	Short levy of duty due to misclassification	29.01	28.58		Chennai (Sea)	Parts of Muffler viz., bracket muffler hanger / bar muffler hanger / assembly outlet pipe
		Total	1219.55	1213.43	891.89		

## Annexure 22: Incorrect application of IGST notification

(Refer para 5.7)

Sl. No.	DAP No.	Subject	Amount Objected	Amount Accepted	Amount Recovered	Commissionerate	Commodity
			(₹ In lakh)	(₹ In lakh)	(₹ In lakh)		
1	2	Incorrect exemption of IGST	44.56	44.56	7.51	Cochin (Sea)	Wet Dates
2	10	Short levy of IGST on engines	11.49	11.49	11.49	Customs (Port), Kolkata	Engine AR-CO', 'Cat engine AR BA' and 'Engine assembly
3	16	Short levy of Integrated Tax (IGST)	97.86	32.44	32.44	Customs House (MP & SEZ), Mundra	Robotic Take-out device and Camshaft housing assembly machine
4	21	Short levy of customs duty due to misclassification	18.15	18.15		Krishnapatnam, Nellore-Customs (Imports & Exports),	High-end Screen, Visual Display Indicator Panels with Parts
5	23	Short levy of IGST	35.46	35.46	42.14	NCH, Mumbai Zone-I	Co-axial Cables
6	28	Short levy of IGST on power energy drink	13.26	13.26		Dawki Land Customs Station, Shillong	Power energy drink
7	41	Short levy of duty due to incorrect application of IGST rate	25.61	25.61	38.96	ICD, Tughlakabad, Delhi	Quilted Bed Covers, bedsheet and pillow,
8	44	Short levy of IGST on import of Chemicals	11.55	11.55	14.09	Ahmedabad Commissionerate	"Hexamethyl Disilazan (HDMS) DI-Isonoyl Phthalate
9	52	Short levy of IGST	57.65	57.65	63.63	ACC-Import, New Delhi	'Various kind of fuel pumps for internal combustion piston engines'
10	58	Short levy of duty due to incorrect application of IGST rate	10.54	10.54	12.19	ICD Tughlakabad, Delhi	Coating machine', Automatic SMT Printer', 'Injection moulding machine
11	60	Short levy of IGST due to misclassification	23.76	23.76	10.71	NCH, Mumbai Zone- I	Glass bead sheet/ rhinestone sheet
12	72	Non levy of Integrated tax (IGST) on re-imports	30.26	30.26	36.88	ACC, Ahmedabad	Re-import of rejected goods: Organic Beet Root Extract
13	77	Short levy of duty due to incorrect application of IGST rate	30.64	30.64	27.49	ACC NCH (Import)	Various machines/parts
14	81	Short levy of duty due to incorrect application of IGST rate.	10.79	10.79	4.95	ACC, Import, New Delhi	Projectors and Monitor/LED/TVs
15	87	Short levy of duty due to incorrect application of IGST rate	25.24	25.24	23.20	ACC, Import	Electrical equipment for spark/compression-ignition internal combustion engines and generators

## Annexure 22: Incorrect application of IGST notification

(Refer para 5.7)

Sl. No.	DAP No.	Subject	Amount Objected	Amount Accepted	Amount Recovered	Commissionerate	Commodity
			(₹ In lakh)	(₹ In lakh)	(₹ In lakh)		
16	103	Non-levy of integrated tax (IGST) on re-imported goods	36.49	36.49	40.28	ACC, Ahmedabad	Pharma Drugs and Medical Folisurge
17	109	Short levy of duty due to incorrect application of IGST rate	33.43	33.43	20.95	ACC NCH (Import), New Delhi	Various kind of fuel pumps
		<b>Total</b>	<b>516.74</b>	<b>451.32</b>	<b>386.91</b>		

**Annexure 23: Incorrect application of exemption notifications****(Refer para 5.7)**

Sl. No.	DAP No.	Subject	Amount Objected	Amount Accepted	Amount Recovered	Commissionerate	Commodity
			(₹ In lakh)				
1	3	Short levy of BCD due to incorrect notification benefit	22.94	22.94	25.10	Customs House, Chennai	Prime Hot Rolled Steel Coils Steel Grade
2	5	Non levy of BCD duty due to incorrect grant of notification benefit	10.91	10.91	13.47	Customs, Tuticorin	USED’ Shuttle less Projectile Weaving Loom
3	27	Short levy of duty due to incorrect exemption	18.53	18.53	24.35	Chennai (Air)	Vibrator Motor- mobile phones
4	31	Short levy of duty due to improper exemption	11.08	11.08	11.08	NCH, Mumbai Zone-I	Pigment Green/Red Coil
5	32	Short levy of basic customs duty	32.82	32.92		ICD- Pulichapallam Puducherry	Bluetooth wireless portable speakers
6	33	Incorrect grant of exemption notification benefit	13.65	6.67	6.67	Chennai (Sea)	Assembly line with their Accessories for manufacture of mobile unit
7	40	Incorrect grant of notification benefit	16.12	16.12	18.35	Chennai (Air)	Connectors/Sim socket/Sim block
8	42	Incorrect grant of notification benefit	10.30	10.30	0.15	ACC (Import) New Delhi	Ethernet switch for networking equipments
9	43	Incorrect grant of notification benefit	10.79	5.37	5.37	ICD Tughlakabad, Delhi	Adapter and chargers
10	48	Short levy of duty due to incorrect grant of notification benefit	11.17	4.54	4.54	ACC (Import) New Delhi	Parts for cellular phones Camera Module manufacture
11	50	Incorrect grant notification benefit.	12.01	12.01	5.35	ICD Patparganj (Import)	car window lifting motors/fuel pump motor
12	51	Short levy of BCD duty due to incorrect grant of notification benefit	14.02	14.02	14.77	ACC (Import), New Delhi	Controller for Electric vehicle/ scooter etc.
13	61	Short levy of BCD duty due to incorrect notification benefit	31.20	31.20	20.69	Chennai (Sea)	Controller, Boards, ECU for E-bike, Electric Bus/Vehicle
14	70	Incorrect grant of notification benefit	120.00	114.00	4.72	Mundra	Nitrobar-Calcium Nitrate with Boron
15	83	Short levy of BCD duty due to incorrect notification benefit	21.43	21.43	15.75	ACC, NCH (Import), New Delhi	E-scooter, E-bike, E-scooty, E-rickshaw, Electric Bus
16	84	Short levy of BCD due to incorrect grant of notification benefit	51.38	51.38		ACC, NCH (Import), Delhi	Optical Interface Module (H2, Support MPLS)
17	108	Short levy of duty due to grant of incorrect notification benefit	34.21	26.59	26.59	ACC-Import, New Delhi, ICD, Patparganj, Delhi	Adapter and chargers/ power adopter/Car port charger
18	117	Short levy of BCD due to incorrect grant of Notification Benefit	11.66	14.18	14.18	Chennai (Sea)	Catalytic Converter
19	122	Incorrect allowing of notification benefit	20.14	20.14		Chennai (Sea)	Parts of ‘Clutches and Brakes
		Total	474.36	444.33	211.13		

## Annexure 24: Other irregularities

(Refer para 5.8)

Sl. No.	DAP No.	Subject	Amount Objected	Amount Accepted	Amount Recovered	Commissionerate	Commodity
			(₹ In lakh)	(₹ In lakh)	(₹ In lakh)		
1	79	Non levy of Anti Dumping Duty	13.97	13.97		JNCH, Mumbai	Purified Terephthalic Acid (PTA)
2	85	Non-levy of Anti-Dumping Duty	12.10	12.10	3.55	ICD, Tughlakabad, Delhi	Tableware and Kitchenware items made of ceramic/ porcelain
3	92	Non levy of Anti-Dumping Duty	11.16	11.16	9.13	ICD, Tughlakabad, Delhi	Taflon Tape/ PTFE Thread Seal Tape
		<b>Total</b>	<b>37.23</b>	<b>37.14</b>	<b>12.68</b>		

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